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NEWS SUMMARY

GENERAL

Students move Iran hostages

Students holding the 50 American hostages in Iran have moved some of their captives to new secret locations.

The move follows President Carter's statement that the U.S. is exploring new avenues of negotiation with Iran over the hostages.

The hostages are believed to be held in small groups in makeshift jails in several towns.

Expulsion order

Two British journalists were given 48 hours to leave Iran after being detained overnight. Page 2

Ayatollah hurt

Iran's roving Islamic judge, Ayatollah Khalkhali, who has ordered more than 150 executions since May, was injured in a car accident.

Shah's battle

The deposed Shah of Iran was said to be "holding his ground" as he battled against serious illness in a Cairo hospital.

Arms race move

Talks on halting the nuclear arms race will be a key topic in meetings starting today in West Germany between President Giscard d'Estaing and Chancellor Helmut Schmidt. Back page

Zimbabwe call

South Africa is likely to take a tough line against Zimbabwe Premier Robert Mugabe's demand for the cutting of diplomatic ties with the retention of other links. Page 2

Prisoners caught

Police recaptured three prisoners who escaped from Glasgow's Barlinnie jail two weeks ago.

Observer talks

Last-ditch talks which could decide the future of the Observer newspaper resume in London tomorrow.

Pakistan protest

Pakistani President Zia-ul-Haq promised tax law changes after 25,000 Shia Moslem demonstrators besieged Government offices in Islamabad. Earlier story, Page 2

Pope's praise

The Pope praised Brazil's racial harmony in a speech to 400,000 people in Curitiba city.

Liner blaze fears

Dense black smoke from the Italian luxury liner Leonardo da Vinci, ablaze for three days in La Spezia bay, raised fears that the fire may have reached 1,200 tonnes of fuel oil aboard.

Curfew lifted

Turkish military authorities temporarily lifted a curfew in Corum, north-east of Ankara, where 18 people have died in sectarian riots. Page 2

Borg injury

Bjorn Borg, who won his fifth Wimbledon title on Saturday, will not play for Sweden in the Davis Cup match with Italy next week because of a stomach muscle injury. John Barrett, Page 11

Meeting of minds

About 4,000 psychologists from 50 countries are meeting in Leipzig for a six-day congress.

Briefly...

Three children died in a house fire at Hull.

Hundreds of London Underground passengers were stranded for an hour because of a power failure.

Three people died in a blaze at a Paris sauna.

BUSINESS

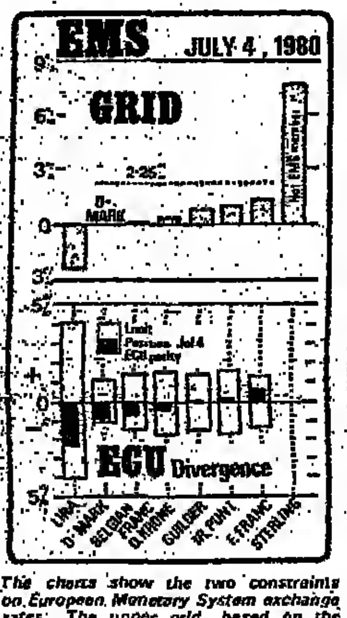
Treasury optimistic over inflation

● INFLATIONARY pressures will be shown to be easing in new Government evidence over the next fortnight. But the FT business opinion survey shows a very low level of confidence among industrialists for their companies and for the economy generally. Back Page; Page 6

● CURRENCIES showed little change within the European Monetary System last week. The French franc remained the strongest member, with the Italian lira adrift from the others at the bottom.

The Irish punt and the Dutch guilder were also firm, followed by the Danish krone and the Belgian franc. The D-mark was the weakest within normal divergence limits, while the lira which is allowed a much wider degree of movement, was anchored well below its partners.

This is reflected in the chart, which takes the Deutsche Mark as the base currency. The Italian authorities introduced the expected economic package last week; this did not include a devaluation of the lira.



The charts show the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

● INTEREST rates are likely to fall quite rapidly later this year, Midland Bank economists forecast. Page 4

● UK CHEMICALS industry output was down sharply in March and April according to provisional figures. Page 3

● BUILDING SOCIETIES' Association chairman Leonard Williams strongly supports council house sales. Page 3

● REGISTRAR of Companies' present services have been defended by the British Institute of Management, which has protested against Government plans to reduce them. Page 3

● COAL BOARD is to consider substantial investment in research and development of mining methods without miners. Back Page

● FRENCH ECONOMY review published by OECD suggests the slowdown in activity is likely to be substantially greater than forecast by the French authorities. Back Page

● BUENOS AIRES underground transport extension project, worth \$2.5bn (£1.07bn), will be put out to tender before the end of the year.

● FIAT has announced a scheme offering loans at 5 per cent on all new Fiat cars and light vans.

● F. H. LLOYD, the engineering group, reported sales for the year ended March 29, 1980 up to £64.1m (£63.5m), but pre-tax profits were down at £2.37m against £3.42m after higher interest charges and severance payments. Page 14

CONTENTS

Wilkinson Match: On the verge of takeover 13
Tennis: Borg's fifth Wimbledon championship... 11
The Week in the Courts: Justinian 10
Editorial comment: Nationalised industries; European Commission . 13
Lombard: Samuel Brittan on PSBR 10
Survey: Hong Kong Inset

Arts	11	Labour News	5	Today's Events	13
Appointments	6	Letters	13	TV and Radio	10
Building Notes	8	Lex	24	UK News	3, 4
Businessman's Dry.	19	Lombard	10	Unit Trusts	21
Company News	14	Management	9	Weather	24
Crossword	10	Men and Matters	12	World Econ. Ind.	2
Entertainment Gde.	10	Money & Exchanges	15	World Trade	2
Euromarkets	19	O'seas News	2	ANNUAL STATEMENTS	
Financial Diary	19	Party Diary	19	Barnato Bros.	4
Insurance	6	Racing	10	F. H. Lloyd Hldgs.	14
Int. Co. News	20	Share Information 22, 23		GEC	3
		Sport	11		

For latest Share Index 'phone 01-246 8026

Fifty Tories seek tougher line on Employment Bill

BY PHILIP RAWSTORNE

FIFTY TORY MPs yesterday stepped up the campaign to toughen the Government's Employment Bill provisions to limit secondary industrial action.

In a telegram to Lord Hailsham, Lord Chancellor, they urged that the Commons should be given a chance to reconsider the issues of secondary picketing and blacking.

Led by Mr. George Gardiner, MP for Reigate, the Conservative backbenchers pressed Lord Hailsham to allow an amendment in the Lords tomorrow by Lord Orr-Ewing, a Tory peer.

The amendment would outlaw all secondary action but, according to the Tory rebels, it would not prejudice the Government's position until the Commons debated the issue again.

The MPs called on Lord Hailsham, who is expected to lead the Government's counter-attack in the Lords tomorrow, to heed top legal opinion that the Bill's present provisions would "ensure that secondary action of the most vicious nature is rendered lawful."

Strong support for tougher Government action came yesterday from Mr. Walter Goldsmith, director-general of the Institute of Directors.

Mr. Goldsmith, expected to reinforce his attack on the Bill's provisions today, said they were "incapable of restraining all the unacceptable excesses of trade union power."

Clause 17 of the Bill, which deals with trade union immunities, was a "badly framed legal nightmare" which had aroused unprecedented dissatisfaction from businessmen, lawyers and politicians, he said. It would be "a fatal blunder" if the Government refused to change it.

Mr. James Prior, Employment Secretary, has been assured of the Cabinet's continued backing for his cautious approach, though Mrs. Thatcher has said the Bill marks only a "first step."

Senior Ministers showed no sign at the weekend of altering plans to produce a Green Paper on union immunities in the autumn before considering whether further legislation is needed.

Mr. Prior replied to his critics yesterday, dismissing their charges as "ill-founded."

In a letter to Mr. Gardiner, he said a total ban on secondary action would conflict with the strong tradition of sympathetic action in disputes and would raise a danger of a concerted campaign that would make the Bill unworkable.

"Nothing is more likely to bring the law into disrepute than for it to be flagrantly disobeyed," Mr. Prior said.

Mr. Anthony Frodsham, director-general of the Engineering Employers' Federation, called for the Bill to be passed without delay.

More radical changes now would make it a less effective measure for countering the abuses which it aimed to cure, Mr. Frodsham said. Stronger measures would also "leave a greater measure of bitterness than the present industrial relations system can well accommodate," he said.

Tory Reform Group Conference —Page 4

Franco-Spanish relations deteriorate over EEC

BY JOHN WYLES IN MADRID

FRANCO-SPANISH relations appear to be deteriorating sharply over Paris's increasingly obvious intention to slow down Spain's negotiations to join the EEC until the Community has agreed on domestic budgetary reform.

After a visit to Madrid last Wednesday and Thursday by M. Raymond Barre, the French Prime Minister, Spanish officials believe that France is ready to frustrate their hopes of joining the EEC by January 1, 1983.

This has forced the sharpest public complaint yet by the Spanish Government over French tactics. In an interview with the Financial Times, Sr. Leopoldo Calvo Sotelo, Spain's Minister responsible for the EEC, said France was seeking to put an "unjustifiable precondition" on Spanish membership.

During his discussions in Madrid, M. Barre made it clear that France was opposed to completing the accession negotiations covering Spain and Portugal until the Community's own internal discussions on domestic reforms had been completed.

This was first hinted in a speech last month by M. Valery Giscard d'Estaing France's President. *Although* it is not the official Community position, it may well have some support among other members. A leading member like France is in a strong position to influence the negotiation timetable.

The EEC will start tackling its budget problems in the second half of next year on the basis of a report to be produced by the end of next June by the European Commission. The aim will be to remove imbalances which mean that West Germany, which bears the heaviest burden, the UK, in spite of its recent budget deal, and France are the only member States paying substantially more into Brussels Budget than they receive.

Since reform will also involve tackling the enormous costs of the Common Agricultural Policy, it is quite likely that the 10 (Greece becomes a member next January) will be unable to resolve the problem quickly. If this delayed completion of the negotiations with Spain and Portugal well into 1983, then their membership would almost certainly be delayed until 1984.

Sr. Calvo Sotelo said that Spain had always understood there could be no possibility of EEC membership during the Franco dictatorship. But the EEC's essential precondition for membership of a democratic political system had been established, and it was quite wrong for another precondition to be raised.

All of Spain's main political parties were in favour of membership. But the Minister warned that frustration was rising as it was three years since Spain had decided to join the Community, and nearly 18 months since negotiations started.

But these are still in their preliminary stages. "There has to be a rhythm to the negotiations which demonstrates a political will," said Sr. Calvo Sotelo.

If this is missing, then "this could change the current unanimity of all the main parties in favour of membership."

M. Barre had been told that Spain wanted its negotiations to be conducted in parallel with the Community's own domestic discussions, and that it wanted to be consulted on the internal changes under consideration. M. Barre offered to keep Spain informed of negotiations among the 10, but repeated that these had to be concluded before the Spanish negotiations could be finalised.

Editorial Comment, Page 12

Gold mine decision expected

BY BERNARD SIMON IN JOHANNESBURG

DETAILS OF a large, new Southern African gold and uranium mine controlled by Anglo American and Lonrho will probably be announced later this week.

Trading in the shares of the Welkom, Western Holdings and Free State Saaiplaas gold mines (all controlled by Anglo American) and of a Lonrho subsidiary, Duiker Exploration, was suspended by the Johannesburg, London and Salisbury stock exchanges on Saturday pending the outcome of negotiations on the establishment of the mine.

The discussions centre on the so-called Erfdeel-Dankbaarheid block, an area in the Orange Free State goldfields. It adjoins the Welkom mine to the west, Free State Saaiplaas to the south, and Western Holdings to the north-west. Anglo American own 60 per cent of the mining rights to the block, and Duiker 40 per cent.

Anglo American has made no secret of its prospecting activities in the area. Mining analysts in Johannesburg and London have for some time been expecting an announcement on the exploitation of the deposits.

The gold content of the deposit is believed to be relatively low grade; about six grammes per ton is mentioned in mining circles. The sharp rise in the gold price in the past year appears to have made a mine commercially viable. The grade is believed to be considerably higher than at the nearby Beatrix mine, the construction of which was given the green light last month.

Mining analysts say a key element in the negotiations is the extent to which a future Erfdel mine will share the facilities of Western Holdings, Free State Saaiplaas and Welkom.

The developers are said to be hoping that the South African tax authorities will allow capital expenditure on Erfdeel to benefit the tax structure of these three mines. One possibility is that Erfdeel's development will be structured in such a way as to create one "super-mine" out of the four sites now treated as separate entities.

The cost of a new mine is estimated at roughly R500m (£275.7m). But the sharing of facilities and proposed tax benefits could bring its effective cost down to R200m (£110.3m).

The suspension of the shares of companies involved in the Erfdeel venture is less than a week after the Johannesburg stock exchange set strict new guidelines aimed at making it difficult for companies to suspend trading in their stock.

Mr. Richard Lurie, president of the Stock Exchange yesterday said the rules provide for suspension in exceptional circumstances.

"The companies are concerned that there could be leakages of information, and we did accept that these are exceptional circumstances," he said.

Gold suppliers wise to surge in demand—Page 12

Flexible cash limits studied

BY ANATOLE KALETSKY

A MORE flexible system of cash limits for nationalised industry financing is likely to be recommended by a top-level group of Government officials and nationalised industry board members who have been considering since May reforms in the nationalised industries' financial arrangements.

Proposals for technical changes in the present arrangements for borrowing from the National Loans Fund by State corporations to give the industries more freedom to vary their borrowing maturities, are also being viewed sympathetically by the Treasury. It is expected that recommendations will be submitted to Ministers before the parliamentary recess next month.

The group was set up at the Chancellor's behest in response to growing tension between the Government and the nationalised industries over the way that cash limits and other financial constraints have interfered with the industries' commercial operations, inhibited investment and cut across the medium-term financial targets which are in theory the industries' main objectives.

It is chaired by Mr. Bill Ryrie, Second Permanent Secretary at the Treasury, and includes representatives of major spend-

Editorial Comment, Page 12
Continued on Back Page

Walker questions economic strategy

BY ELINOR GOODMAN

MR. PETER WALKER, the Agriculture Minister, has for the first time expressed doubts about the Government's economic strategy. Speaking on Saturday to an audience of fellow Conservative doubters at the Tory Reform Group conference in Warwick, Mr. Walker questioned some of the fundamental assumptions behind the Government's economic policies.

He made it clear he was worried about the social implications of trying to squeeze inflation out of the system at the expense of jobs, and implied that in his view the Government was badly underestimating the drain on the Exchequer caused by unemployment. He also indicated that he favoured a much more interventionist approach to industry than is favoured by the Government.

Little of this was stated in so many words. Instead, he used the conventions of the Conservative Party to make his point. Like Sir Ian Gilmour, the Lord Privy Seal who was the first Cabinet Minister publicly to admit his doubts about the Government's economic strategy, Mr. Walker presented his remarks as a reaffirmation of his belief in the basic principles of the Conservative Party rather than as a challenge to the Government.

Throughout, he was careful not to mention any of his colleagues by name and he claimed that there was evidence that the Government had recognised the need to "balance efficiency with compassion."

Mr. Walker, a close associate of Mr. Heath in the last Conservative Government, has been known to be uneasy about some aspects of the Government's policies but until now he has not made his doubts public. His speech on Saturday was not a major set piece like Sir Ian's but in it he summed up in public many of the doubts which Ministers on the liberal wing of the Cabinet are expressing in private.

He argued strongly against the belief that a rise in unemployment would produce a slower rate of wage increases. There was plenty of evidence, he said, to suggest that a company short of money gave in to wage demands to avoid an expensive strike.

Mr. Walker also argued that it was wrong to assume workers would be more willing to co-operate if their jobs were at risk. Most union restrictive practices dated back to the 1930s when unemployment was at its highest. The first reaction

Continued on Back Page

Coal industry has flood of job applicants

BY RAY DAFTER, ENERGY EDITOR

THE COAL industry, now engaged in a major modernisation and expansion programme, is having to turn away hundreds of people wanting jobs in collieries.

In some regions hardest hit by industrial recession—the Midlands and the North in particular — there is fierce competition among applicants.

The National Coal oBard said last night: "We do find that people are turning towards the coal indsutry because of its security and its high earnings, which are helped by productivity bonuses."

Nationwide, the board's employment position was "just about in balance." But the industry was constantly recruiting.

With a workforce of about 230,000, the board had to recruit about 25,000 annually to replace employees who resigned or retired.

There have been more than 2,000 applicants for 400 jobs in about 20 pits in Staffordshire, Cumbria, Lancashire and North Wales. In the Midlands, there is a waiting list of 1,500 for jobs at 52 collieries.

In many areas, the board is one of the few employers taking on workers. In some instances, applicants have been overqualified for jobs on offer.

More generally, the industry is facing a flood of applicants from school-leavers. Pits in South Wales have more than four applicants for every mining and craft apprenticeship, in spite of the local mining uncertainties. The Coal Board is not recruiting adult workers in South Wales because of pit closures, but it expects to take 700 apprentices this year.

In the Midlands, the board said that it was receiving four or five applications for available apprenticeships. The Midlands waiting list is more striking among mature workers; there are 20 to 30 applications for each job.

"We have had waiting lists before, but I don't think in recent times they have ever been so long," said the Midlands spokesman.

"We are hoping that the increases in wages that have

Cootinned oo Back Page

Miners' union to decide on pit closure stance

BY CHRISTIAN TYLER, LABOUR EDITOR

MINERS' REPRESENTATIVES will be deciding this week how far they are prepared to go in fighting off more pit closures.

Despite brighter international prospects for coal, the National Union of Mineworkers suspects that dozens of lossmaking collieries are in greater danger of closure now than for years.

The union cites the phasing out of operating grants to the National Coal Board and more generous redundancy payments as evidence of Government intention to reduce overall manpower.

Militants at the union's annual conference in Eastbourne will be looking for a clear mandate to fight closures with industrial action and insist on full settlement of the next pay claim in spite of the Government public sector wage policy.

A demand for £100 a week basic wage from January 1 for the lowest paid mineworker—an increase of nearly 36 per cent—is almost certain to be carried unopposed along with the stipulation that miners should be treated as salaried workers.

A real push to achieve that carries the risk of the coal board looking for savings elsewhere.

The conference has wider political importance this year. The union seeks to put itself in the vanguard of opposition to Conservative Government policies on the economy, industrial relations and defence.

A hard-line motion from Derbyshire, to be forwarded to the annual Trades Union Congress if it is carried this week, calls for trade unions to flout Government measures against picketing and secondary industrial action when they become law later this month.

If successful, this demand to oppose the Government, backed by industrial action if necessary, would not only test the TUC's temperature but would also give new impetus to the Left within the NUM. The Left is already rallying behind Mr. Arthur Scargill's campaign for the national presidency in succession to the moderate Mr. Joe Gormley.

Miners' fears, Page 5

OVERSEAS NEWS

S. Africa 'hard line' on Zimbabwe

BY OUR SALISBURY CORRESPONDENT

ZIMBABWE Government officials are predicting a hard-line response from South Africa to the demand by Mr. Robert Mugabe, the Prime Minister, that diplomatic links between the two countries be severed, but economic, financial, tourist and transport links be retained.

Officials here said Pretoria was "not inclined" to bow to Mr. Mugabe's demands and was adopting "an all-or-nothing approach."

At his Salisbury news conference after his return from the Organisation of African Unity summit in Freetown, Sierra Leone, Mr. Mugabe said he had told Mr. Piet van Vuuren, South Africa's diplomatic representative, to pack his bags "nine days ago."

He had, however, not given any deadline for the mission's closure. "We told him that we were not pushing him out overnight."

The South African diplomatic mission in Salisbury had been used to recruit men of all races for the South African forces to infiltrate into Angola, Mozambique, Zambia and Zimbabwe, Mr. Mugabe claimed. These "recruitment operations" had been "infiltrated" by Zimbabwean agents. He expected, however, that South Africa would want to retain trade and economic links.

Mr. Mugabe . . . "Told them to pack their bags."

No official comment was forthcoming in Pretoria, but South African officials in Salisbury implied that Mr. P. W. Botha's Government might adopt a tough attitude, and insist on closing its economic as well as its diplomatic offices in Zimbabwe.

South Africans in Salisbury make the point that Zimbabwe is more dependent on South Africa—it is estimated that at least 90 per cent of Zimbabwe's exports and imports use the South African railways and ports.

Businessmen, in Salisbury, however, are predicting that South Africa will retain economic representation in Salisbury, and seek to retain an office for the issue of passports and residence permits for whites wishing to emigrate from Zimbabwe. Thousands of whites in Zimbabwe have South African nationality, and hundreds are seeking work permits for South Africa.

The ruling ZANU PF party claimed at the weekend that literally thousands of blacks—mainly in private domestic service and agriculture—have been laid off because of the new minimum wage regulations that came into effect on July 1.

The number of men declared redundant is conservatively estimated at 10,000 out of an employed labour force of 900,000. It became illegal on July 1 to dismiss workers purely because of the minimum wage regulations. Party officials are claiming widespread redundancies were imposed just before the new law came into effect.

ZANU PF labour officials said that in some industrial sectors, men were being laid off and re-engaged at lower wages, but there has been no comment on these accusations either from the Government or employers.

At Bulawayo at the weekend, Mr. Joshua Nkomo, Home Affairs Minister, said far more "dissidents" were operating against the Government in ZANLA areas (loyal to Mr. Mugabe) than in ZIPRA areas (loyal to himself).

Mr. Nkomo deplored the fact that he had not been invited to attend the OAU meeting. If Mr. Nkomo's party were "driven out of the Government" it would be Mr. Mugabe's fault, he added.

U.S. arms rushed to Thailand

By Our Foreign Staff

THE U.S. began an emergency arms airlift to Thailand at the weekend, flying in 18 howitzers and 350 M-16 rifles in three C-141 transports. The airlift was authorised by President Jimmy Carter after the Vietnamese attack on Kampuchean refugee camps in Thailand late last month.

Two more C-141s were due to arrive today, and one tomorrow, carrying M-16 rifles, 106mm recoilless rifles and ammunition. U.S. officials said the delivery of 35 M-48 tanks would also be speeded up. They are now expected to arrive by sea in September.

The total value of the equipment, ordered and paid for by Thailand before the Vietnamese attack, is put at $32.5m. The estimated cost of the airlift—$1m—is being borne by the U.S. Government, as a gesture of support for Bangkok.

In Vietnam, Radio Hanoi yesterday accused China of shelling Vietnamese territory. The radio reported that the Chinese had poured hundreds of artillery and mortar shells into the northern province of Cau Bang, "causing dozens of casualties." Vietnamese artillery returned the fire.

China, which supports the Kampuchean guerrillas fighting Vietnamese troops along the Thai-Kampuchean border, on Saturday sent a Note to the Vietnamese Embassy in Peking, accusing Vietnam of incessant border provocations, intensifying aggression in Thailand, and staging an incursion into Thailand.

The official Chinese news agency Xinhua earlier reported that Vietnam had killed, wounded and kidnapped more than 240 Chinese civilians in the past 14 months. Diplomats in Peking said there had been no signs of a Chinese military build-up along the border, although China has not ruled out the idea of "teaching Vietnam another lesson."

In February last year, China mounted a month-long invasion of northern Vietnam, but the diplomats noted that China has other options than to repeat the frontal assault across the border.

Reports from the Thai-Kampuchean border said fighting was continuing between Kampuchean guerrillas and Vietnamese troops. Thai military officials at the border said the guerrillas were trying to stop the Vietnamese building a road to the Malai Hills, a guerrilla stronghold near the frontier.

At a meeting yesterday in the Thai border town of Aranyaprathet, Thai military officials told some 2,000 civilians to end their black market trading with Kampuchea. The continuing border tension has also led Thailand to close its 900-mile border with Laos.

British journalists expelled by Iran

BY PATRICK COCKBURN IN TEHRAN

TWO BRITISH journalists, Miss Christine Powell and Mr. Roger Cooper, where released by the Iranians yesterday after agreeing to leave the country within 48 hours.

The two had been held for 17 hours after being detained by officials in plain clothes on Saturday. They said yesterday they did not know which authorities had detained them. They were interrogated separately but did not know why they were arrested. They were not ill-treated.

Miss Powell, who works for Australian radio, has lived in Iran for six years. Mr. Cooper, who has lived in the country off and on for many years, is an expert on Persian literature.

In another move against the foreign Press, President Abol Hassan Bani-Sadr has asked the Revolutionary Prosecutor General to close the office of the French News agency, Agence France Presse, in Tehran and to expel its correspondents.

The President's office alleges that the text of an interview given by Mr. Bani-Sadr and published in Le Monde was distorted by AFP.

In May, Mr. Nick Cumming-Bruce, a British freelance journalist was arrested and told to leave Iran after being detained.

Meanwhile it has been announced that all women employed by the Iranian Government will have to wear an Islamic uniform designed by the Revolutionary Council and the President's office.

This will include some form of hejab (head scarf) but not necessarily the chador (long black cloak).

Over 2,000 women demonstrated against the new dress regulations on Saturday and many women in Government offices wore black as a sign of protest yesterday.

Saturday's demonstration has been bitterly attacked in the Press. The Islamic Republic daily, which is controlled by the clerical Islamic Republican Party, asked its readers to identify women taking part in the demonstration.

Some ministries have threatened to expel all women employees who fail to wear the hejab, although Mr. Bani-Sadr has said there will be no mass dismissals.

Revolutionary Guards delayed an Iranair internal flight for five hours on Saturday because the hostesses were not wearing acceptable Islamic dress.

AP and Reuter report from Moscow: Ethnic Iranians demanding visas to return home have staged a hunger strike at the Iranian consulate at Baku, in Soviet Azerbaijan.

The Iranian embassy in Moscow reported that several hundred Iranians staged a protest march to back their demands and some entered the consulate. Mr. Mohammad Mokri, Iran's Ambassador in Moscow said he defused the protest by leading the Iranians through the streets of Baku to the main mosque for prayers.

He explained that several hundred Iranians who had been in the Soviet Union since the 1940s now wished to return home. He promised that all applications would be studied and those supporting the Islamic revolution would be given preference.

Pakistani troops face protesters

By Our Foreign Staff

TWO DIVISIONS of Pakistani troops yesterday surrounded 25,000 demonstrators outside the Pakistan Government Secretariat building in Islamabad, the Pakistani capital. The protesters, who belong to the Shia Moslem sect, were demonstrating against the compulsory wealth tax introduced last month by General Zia ul-Haq, the Pakistani leader, as part of his programme to turn Pakistan into a model Islamic state.

Diplomats in Islamabad said it was the biggest show of military force in the capital since General Zia came to power three years ago.

The Shias, who make up about 30 per cent of Pakistan's 70m population, believe the compulsory tax is against the law of their sect. They believe they can pay it only if it is voluntary.

Organisers of the protest said they intended it to be peaceful.

The demonstration started after at least one man was killed and 13 were injured in fighting with police in Islamabad on Saturday. The Shias said two of their supporters were shot dead on Saturday by Police, who deny any shooting. They said only one man was killed, when he was struck by a tear gas canister. The Government made no official comment.

Shia spokesmen said there were protest marches yesterday against the violence in several Pakistani towns, including Peshawar, Lahore and Karachi.

They also said a march would be staged in Islamabad today, in defiance of martial law regulations.

UN Namibia council to begin uranium hearings

BY MARK WEBSTER

THE UNITED NATIONS Council on Namibia today begins hearings in New York on the controversial issue of exploiting the territory's vast uranium deposits at the Rossing Mine.

Many observers believe, however, that the hostile attitude previously displayed by the council towards the export of Namibia's natural resources make the hearing a foregone conclusion.

They cite the council's 1974 decree banning the exploitation of Namibian natural resources before the territory had achieved real independence.

Britain, which receives a large part of its uranium for civilian uses from Rossing, has refused to accept the authority of the UN body to issue such a decree.

Rio Tinto Zinc, which has a stake in the mine, has already declined an invitation to send a representative to the hearing. Sir Mark Turner, RTZ's chairman, said he would not be available, and would not send anyone else because of the British Government's attitude towards the council.

Britain came in for considerable criticism over its imports of Namibian uranium after a television documentary revealed the circuitous route by which the uranium was airlifted to France, then taken by road to a variety of European destinations.

Since then, arrangements have been changed and the uranium is now brought by ship to Europe and transferred by road to its eventual destination.

The Rossing Mine has only recently reached its maximum output of 5,000 tonnes a year, having been dogged by industrial and technical problems. At present, it is Namibia's only uranium mine.

Iraqi Minister attacks 'oil stockpiling'

KUWAIT—Mr. Tayeh Abdul-Karim, Iraq's Oil Minister, has attacked Western nations for stockpiling oil supplies, and in a change of policy, has called for a limit on crude oil production.

"Regulating oil production is the only effective measure to confront Western plans aimed at constant disruption of the balance of supply and demand by stockpiling oil," Mr. Abdul-Karim told the Kuwaiti newspaper Al-Rai Al-Aam.

Iraq had always aimed at achieving a balance between supply and demand, Mr. Abdul-Karim went on.

Finding a formula for unifying prices charged by the 13-member Organisation of Petroleum Exporting Countries (OPEC), and studying ways to maintain the real price of oil were more important than simply increasing prices, he added.

Earlier this year, Kuwait, Libya and Venezuela cut production and Mr. Ali Akbar Moinfar, Iran's Oil Minister, said less oil should be lifted because stocks in consuming countries had reached record levels.

Iraq, however, did not follow the moves to cut production. The second-largest OPEC producer, it produces 3.7m barrels of crude a day.

Reuter

Turkish town tense after riot

By Metin Munir in Ankara

A CURFEW imposed on the central Anatolian town of Corum where 18 people died in sectarian riots on Friday was lifted temporarily by the Turkish authorities yesterday.

Troops were out in force and barricades were erected to prevent a renewal of the violence between the town's right-wing Sunni majority and the Alawi community.

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Arabs meet on arms industry

BY RAMI G. KHOURI IN AMMAN

ARAB FOREIGN and Economy Ministers opened a three-day conference in Amman yesterday, to lay the groundwork for a series of important pan-Arab issues to be discussed here again at head-of-state level during the November Arab summit.

The Ministers of the 21 states—and the representatives of the Palestine Liberation Organisation—meeting as the Arab Economic and Social Council, will discuss a report prepared by last week's meetings in Amman of the Arab Economic Unity Council. The report aims to introduce the concept of an "Arab economic citizenship," which would remove obstacles to citizens of one Arab country wishing to invest in another.

The Ministers will also take up the question of forming an Arab armaments industry to replace the grouping of Egypt and three Gulf States that disbanded in the wake of the Israeli-Egyptian peace agreement. They will also discuss co-ordinating Arab reactions to the normalisation of relations between Israel and Egypt.

Economic issues are expected to dominate the discussions, with non-oil-producing Arab countries taking the opportunity to complain about the effects of rising oil prices. No action on this matter is expected until the summit conference in November.

Prospects for action on the major political divisions in the Arab world are slim, though the gathering of so many Ministers is an opportunity to catalogue those problems for full treatment by the November summit.

Among points to be discussed are the recent EEC declaration on the Middle East, the Soviet invasion of Afghanistan, Lebanon, and the most appropriate Arab response to the Camp David talks.

The Arab states are badly divided on all these points, and the best that can be hoped for here this week is agreement on how these points should be tackled in November.

The agenda also includes ways of bolstering inter-Arab economic activity to reduce collective Arab dependence on foreign economic ties, and the use of Arab resources to liberate Palestinian territories occupied by Israel.

Also to be discussed are ways of achieving more balanced development, to reduce embarrassing discrepancies between the rich and poor states of the Arab world, and agreeing on a pan-Arab economic and social development charter to boost collective Arab economic activity.

WORLD TRADE NEWS

India to build £54m China plant

By K. K. Sharma in New Delhi

CHINA has agreed in principle that Birla, India's largest industrial concern, should set up a rayon manufacturing plant in China on a turnkey basis. The plant, which will use Indian technology, is expected to cost Rupees 1bn (£54.6m).

Agreement was reached between the China National Technical Import Corporation and a Birla representative who was a member of a trade delegation which visited China last month. The details of the project are now being worked out.

This is a major breakthrough for India both in economic and political terms. India and China opened trading relations a few years ago but trade has so far been nominal. Apart from being a major contract, the Birla project is therefore expected to boost trade significantly.

The deal comes at a time when there are moves to normalise Sino-Indian relations which have been cool since the border war of 1962. India has not accepted China's proposals for settling the border dispute but has indicated that it wants to begin serious negotiations. The Chinese Foreign Minister is to visit New Delhi later this year.

There has been considerable criticism here of the slow pace of normalisation of relations since Indian businessmen are keen to take part in China's modernisation and explore the potentially large market.

The Indian trade delegation signed an agreement for the purchase of 20,000 tonnes of barytes worth $800,000 from China. The import of calcined petroleum coke from China is also being discussed. The Chinese, for their part, have made a number of inquiries on imports from India of chemicals and machinery of various kinds.

Estel Hoesch in Soviet pact

DORTMUND—Estel Hoesch Werke, the West German unit of the Dutch Estel Hoesch-Hoogovens steel group, has signed a five-year technical co-operation agreement with the State Committee for Science and Technology of the Soviet Union.

The agreement, which was signed in Moscow, calls for technical co-operation in the areas of welded pipe production for oil and gas pipelines, pipeline quality control, insulation, and production of two and three-layered spiral pipe.

Estel Hoesch said the co-operation would take the form of exchanges of technical information and know-how through visits by experts, joint seminars and symposia, as well as mutual testing of samples of new products and the exchange of test results.

Soviet and West German specialists would also jointly work on the development of new types of pipe and new steels.

AP-DJ

Oman orders more Jaguars

By Michael Donne, Aerospace Correspondent

OMAN HAS ordered a further substantial number of British Aerospace Jaguar strike aircraft, together with a number of Rapier Blindfire radars, to enhance the capability of the existing Omani Rapier missile defences.

The number of aircraft is not disclosed officially, but is believed to be 12 aircraft, enough for another squadron, worth at least £60m without spares.

The new Jaguars will be of the latest version, powered by uprated Rolls-Royce/Turbomeca Adour engines, giving improved performance in combat conditions. Oman at present has 12 Jaguars in service, with two trainers.

Argentina to seek tenders for £1bn metro extension

BY ROBERT LINDLEY IN BUENOS AIRES

TENDERS WILL be called before the end of this year for the $2.5bn (£1.07bn) project to extend the Buenos Aires underground system from its present 21 miles to more than 45 miles within the next ten years.

Two new underground lines are to be added to the existing five, three of which will be extended. The vast project includes the remodelling of the existing underground and the renewal of all the tracks, rolling stock and signalling equipment of the system.

Buenos Aires was one of the first cities in the world to acquire an underground system. The first line—Linea A—was entrusted in 1909 to a British company called Anglo Argentino which completed the line, just under seven miles long, in December, 1913. Of the five existing lines of the network, most of which are on the point of total collapse, "Linea A" is the one which functions best today.

The last of the existing lines, all of which begin in what is erroneously called the "centre" of Buenos Aires—an area which in fact is in the vicinity of the city's new port—was not completed until 1973.

No line reaches beyond the real centre of the city proper, the population of which today is probably in excess of 4m (the last census, in 1970, put the city's population at about 3.5m).

The Buenos Aires underground system is therefore totally inadequate for servicing the city and the sprawling suburbs with a total population of around 11m.

Even the projected extension, with the exception of one of the planned new lines, Linea G, which will reach into the industrial suburb of Avellaneda, will not push it to the city limits of Buenos Aires proper.

Swedish car sales decline 14%

BY JOHN WALKER IN STOCKHOLM

THE SALE of new cars in Sweden dropped by some 14 per cent to 98,822 units during the first half of this year compared with 112,562 units in the same period in 1979, according to the Swedish Association of Motor Manufacturers and Traders.

This downturn which began late last year is claimed to be the worst since World War II and even the present level of sales is expected to be difficult to maintain.

The two main reasons for the decline are the current downturn in the economy coupled with the lengthy industrial strike affecting many sectors of industry which made many potential buyers hold off.

Swedish manufacturers Volvo and Saab both showed a decline in the first half of this year. Volvo sales dropped from 30,015 units in the first half of 1979 to 26,279 units in the first six months of this year, retaining almost the same market share of around 26.6 per cent. Saab sales dropped from 15,369 units in the first six months of 1979 to 12,131 units with a drop in market share to 12.1 per cent from 13.6 per cent a year ago.

The Japanese share of the market at 13 per cent was marginally above the comparative figure for last year.

Truck sales amounted to 8,877 units during the first half of the year compared with 7,746 units in the same period in 1979. At the same time bus sales went up to 525 units this year compared with 497 units in the same period in 1979.

Congress blocks Eximbank rise

BY JUREK MARTIN, U.S. EDITOR IN WASHINGTON

THE U.S. Congress, rushing to leave Washington for the three-week holiday recess, last week chopped more than $300m (£217m) in supplementary spending for foreign programmes, including all the planned increase in lending authority for the Export-Import Bank.

This action was a defeat for the Carter Administration, though the setback will probably be temporary. Several senators promised to resubmit funding for the Eximbank when Congress reconvenes towards the end of the month.

The confused events in both Senate and House were not untypical. It often happens that, faced with the pressures of recess deadlines and statutory budgetary spending ceilings, not to mention domestic political considerations, previously agreed packages are cast aside for the time being.

In this instance, Congress baulked, for obvious political reasons, at having to cut substantial sums from Federal revenue-sharing grants to the nation's States. In order to stay within the $16.6bn ceiling of the Supplemental Appropriations Bill for the current fiscal year it took its axe to its favourite target, foreign assistance.

The Bill included provision for an extra $528m in foreign spending, which Congress cut to a meagre $126m. Lost in the wash was the Eximbank, for whom an extra $355m had been sought and whose lending authority is now down to a scant $25m, and an additional $80m for the World Bank. The congressional leadership only managed to salvage $80m in aid to Nicaragua and $43m in special international disaster assistance.

Dutch export funds running out

BY CHARLES BATCHELOR IN AMSTERDAM

INTERNATIONAL competition to offer favourable export financing deals threatens to exhaust funds provided by the Dutch Government to help its own exporters.

Requests for assistance from the Dutch "matching fund" had reached Fl 114m (£25.7m) by mid-June, more than two thirds the Fl 140m set aside for the whole of 1980, Mr. Karel Beyen, State Secretary at the Economics Ministry told Parliament.

The Dutch set up their matching fund in 1976 to enable exporters to match the cheap low interest rate financing foreign competitors were able to offer with assistance from their own governments. A real shortage of funds now threatens, Mr. Beyen said, in a written reply to an MP's questions.

Dutch exporters have asked for Fl 105m of new aid to help gain orders worth Fl 2.1bn while a further Fl 9m is needed to continue existing aid agreements. The Economics Ministry is allowed to approve support of up to Fl 140m, though the funds it may actually distribute amount to only Fl 70m since experience has shown that only 50 per cent of the tenders are converted into orders.

In 1979 the ministry gave Fl 41m to help exporters get 29 orders worth Fl 1.3bn. The maximum it could approve last year was Fl 100m while actual

The Government hopes to meet all requests for matching aid this year, although Mr. Beyen warned that budget pressures mean no guarantee can be given that extra funds will be provided if this becomes necessary.

UK opens credit for Turkey

BY METIN MUNIR IN ANKARA

A £15m British loan to Turkey can now be drawn on following its publication in the Turkish official gazette.

The money is part of $1.16bn pledge by the so-called Turkey Club of the Organisation of Economic Co-operation and Development (OECD) as balance of payments support in 1980.

The British loan is to be used for the purchase of UK products which the British Government considers to be "conducive to the economic, commercial and industrial development of Turkey."

The money cannot be used for the purchase of armaments, luxury and consumer goods, oil, petroleum and petroleum products.

The new loan carries an annual interest rate of 6 per cent. Repayment will begin in 1985 and be completed in 20 years.

David Tonge adds: The Turkish-British Chamber of Commerce and Industry was launched last week in London. A symposium of 200 businessmen and officials heard Mr. Yuksel Soylemez, the Turkish Consul General in London announce that the Chamber was now seeking support and should be functioning by the end of this year.

In 1979 British exports to Turkey amounted to £48.5m and British imports from Turkey to £43m. Mr. Soylemez said that Turkey's foreign exchange difficulties and the suspension of cover from the Export Credits Guarantee Department had contributed to restricting the growth of trade.

SHIPPING REPORT

Serious downturn for dry cargo markets

BY WILLIAM HALL, SHIPPING CORRESPONDENT

THE DRY CARGO markets have suffered their first serious setback since the U.S. embargo on Russian grain sales at the start of the year.

Over the past fortnight rates for Panamax vessels (the maximum size ship capable of traversing the Panama canal) have fallen by about a fifth and for the smaller handy sized vessels, rates are about a tenth below their June peak.

Galbraith Wrightson, in its weekly bulk carrier report, says there is no doubt that the expected usual summer depression has already arrived in the dry cargo markets which it predicts will continue until late September.

However, other shipping brokers are less sanguine. There are similarities between the current freight market and the situation which existed after the quadrupling of the oil price in 1973/74. Rates for tankers and dry cargo ships had improved steadily from mid-1972 until the end of 1973 when the tanker market collapsed. By contrast, the bulk carrier market did not start to weaken until the middle of 1974. This was followed by the worst shipping recession since the 1930s.

Since mid-1978 the shipping industry has been recovering. However, over the last six months the bulk carrier market has performed much more strongly than the tanker market and this raises questions about how much longer the two markets can remain out of step.

The tanker industry has special problems which are not shared by the dry cargo markets. Even so, there is a limit as to how long the bulk carrier markets can remain firm in the face of a deepening world recession.

According to Fearnley and Egers, the Norwegian shipbrokers, 1,780m tonnes of oil plus associated products were carried last year—just under half of all seaborne trade (3,657m tonnes). Another third (1,260m tonnes) is categorised as other cargo, and the other three main commodities are iron ore (302m tonnes), coal (140m tonnes) and grain (175m tonnes).

Only the coal trades seem likely to remain buoyant. The grain trades depend very much on the fortunes of the world's major harvests (Russia's in particular) and seaborne trade in iron ore and general cargo is linked closely to world trade generally.

In addition to the depressed picture for most of the major commodities transported by sea there are signs that shipowners are once again ordering too many ships.

R. S. Platou, the Oslo-based brokers, reports that 48 orders for bulk carriers of over 50,000 dwt have been placed in the first six months of this year which means that the bulk carrier orderbook has more than quadrupled in size to 13½m dwt over the last year. Under 0.5m dwt of new bulk carriers were delivered in the first half of the current year. But Platou estimates that no less than 7.3m dwt are to be delivered next year.

World Economic Indicators

INDUSTRIAL PRODUCTION

					% change over previous year	Index base year
	May '80	Apr. '80	Mar. '80	May '79		
U.S.	145.5	148.6	151.6	152.4	−4.5	1967=100
	Apr. '80	Mar. '80	Feb. '80	Apr. '79		
U.K.	108.2	108.9	110.2	113.6	−4.7	1975=100
W. Germany	131.7	130.8	123.4	129.3	+1.9	1970=100
Italy	147.8	155.2	148.4	128.8	+14.8	1970=100
Japan	143.1	142.6	147.7	129.7	+10.3	1975=100
	Mar. '80	Feb. '80	Jan. '80	Mar. '79		
France	136.0	135.0	135.0	132.0	+3.0	1970=100
Holland	117.0	117.0	116.0	110.0	+6.4	1970=100
	Feb. '80	Jan. '80	Dec. '79	Feb. '79		
Belgium	119.2	108.1	112.5	109.5	+8.9	1970=100

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Chemical output falls sharply

BY SUE CAMERON, CHEMICALS CORRESPONDENT

THE UK chemical industry's output was down sharply in March and April, according to provisional figures.

They also show "a stagnation in the growth of UK chemical exports," says the official publication, British Business.

It forecasts a sharp fall in business for British chemical companies—but little or no increase in the volume of chemical imports is expected this year.

Chemical exports in the first three months were £1.502bn at current prices, compared with £1.485bn in the final quarter last year. But in 1975 prices, seasonally adjusted, exports fell slightly to £919.2m from £919.5m in the last three months of last year.

British Business says sterling's continuing strength, the rapidly increasing costs of UK production and increased competition overseas "are among the factors that have led to this stagnation in the growth of UK exports."

The production index for the first three months is estimated at 118.6 (1975=100), much the same as for last year's fourth quarter. But, it says, this "masks the sharp fall in output in March and April.

"Although it would be imprudent to read too much into these provisional figures, it seems likely that the industry is now entering a recession.

"The current fall in demand is also being exacerbated by a rundown in stocks from the high levels built up in 1979 and, given the somewhat bleak outlook for the economy in 1980, the prospects for the industry are not bright."

The cost of materials and fuel rose by a "further 10 per cent" in the first three months "to a level over 40 per cent higher than a year ago." This is said to reflect the sharp rise in oil prices and petrochemical feedstocks last year.

Investment in the industry is estimated to have risen by about 10 per cent in the first quarter, after declining steadily since the middle of 1978. But this is still "some 8 per cent lower than in the first quarter of 1979."

British Business says an Industry Department survey of investment intentions indicates a downward trend for the rest of this year.

Sales of principal chemical products (in 1975 prices) fell from £2.106bn in last year's final quarter to £2.097bn in the first three months of this year. Chemical imports, also at 1975 prices, fell from £682m to £640m.

Big Midlands companies give backing to beginners

BY LORNE BARLING

SOME OF the largest companies in the Midlands, such as Lucas Industries, GKN and Cadbury's are backing a serious attempt to generate business activity through new small companies, many of them involving redundant workers and disillusioned management.

A group of 16 major companies is contributing up to £3,000 a year to Birmingham Venture, a scheme run by the Birmingham Chamber of Commerce, in an effort to regenerate industry at a time of extreme pessimism in the area.

The aim is to allow new small businesses to draw on the experience and resources of large companies to get themselves established, although its backers admit it can have little immediate impact on the large number of redundancies in the area.

Since the start of the scheme at the beginning of the year, seminars have attracted double the number they can accommodate and support from Midlands companies is growing fast. Participants also include the four clearing banks, Bryant Construction, Delta Rod Holdings, Kalamazoo, and ATV Network.

Mr. Graham Ashmore, organiser of the scheme, said: "Many of the people who intend to start new businesses are either tired of being pushed around by unions, or find their drive blocked by senior management."

There were others who had lost their jobs in mid-career and intended to use their redundancy money in a last effort to become self-employed and independent.

Most encouragement is being given to new manufacturing enterprises, which make up about a third of inquiries. Assistance is being provided where possible, such as the recent testing of an engineering product by GKN.

Progress is being made on the provision of industrial premises at sites which the large companies do not need, and the development of special "nursery" units is being considered.

Advice given to potential manufacturers covers accounting, banking, property and marketing, usually in the form of lectures by experts on each subject. Some large companies are offering to sell complementary products in export markets.

So far, Birmingham Venture has assisted in the setting up of a small number of companies. With more resources from increasing membership, it believes this will rise steadily.

Backing for sale of council houses

BY ANDREW TAYLOR

STRONG support for council house sales has come from Mr. Leonard Williams, the Building Societies Association chairman. He says continued demand for owner-occupation can be met only with a more rapid transfer of houses from the public rented sector.

Writing in the latest issue of Building Society Affairs, Mr. Williams says new housebuilding is declining and fewer private rented homes are available for sale. New impetus to home ownership could be provided by the council house sales programme.

"These new owner-occupiers will help maintain a reasonable social balance within large housing estates for, until now, many local authority tenants who have aspired to owner-occupation have left council estates and bought houses in the private sector.

"This has tended to leave local authority housing with undue proportions of relatively low-income families at one end of the spectrum and single people at the other. The sale of council houses can help preserve a better balance between various types of household."

Mr. Williams said building societies expected to play an important role in financing council house sales. But it would be undesirable for them to earmark special funds for this purpose.

"To do so would seem quite invidious when many investors who have no homes of their own are unable to secure a building society mortgage to buy a house because societies are short of money."

Mr. Williams expected that many council tenants buying in the near future would take advantage of their right to a mortgage loan from their local authority.

Callaghan urges end to Labour bickering

By Philip Rawstorne

MR. JAMES CALLAGHAN reasserted his leadership of the Labour Party at the weekend and called for an end to the long and bitter row over its constitution.

"Enough is enough," he told a party rally at Brecon, urging the movement to unite in opposition to the Tory Government.

"As long as the party is arguing with itself, we give comfort to the Tories and we dishearten our own supporters."

Labour must be in a position by the autumn to present itself as an alternative Government, Mr. Callaghan said.

'Savage'

"All people look to us as the creators of Britain's Welfare State to throw back the onslaught of the most savage and doctrinaire Tory Government in the last half century."

Mr. Callaghan, in his first major speech since the party's Commission of Inquiry decided to leave the solution of the constitutional issues to the October party conference, spelled out the decisions he hopes to secure with the help of the union block votes.

Constituency parties should be free to decide whether to reselect sitting Labour MPs as candidates, he said.

The party leader should continue to be elected by MPs after consulting their local parties; and the party's election manifesto should continue to be decided by the parliamentary party and the national executive.

Division

If the national executive tried to impose a manifesto on the parliamentary party, it would be a recipe for division and disillusion, he said.

Participation and consultation in the party should be improved, but the violent controversy aroused by some of the changes proposed were distracting the party from its main task. There was a deep groundswell of opinion that the debate should be ended.

Calls for party unity also came at the week-end from Mr. Eric Heffer, a leading Left-winger, who said that the party must not become obsessive about constitutional issues, and from Mr. Peter Shore, the party's foreign affairs spokesman, who said the time had come for the "long-delayed" Socialist counter attack against the Government's policies.

EEC regime 'favours French apples'

BY RICHARD MOONEY

THE CONTROVERSY over imports of French apples into Britain has been riddled with "rumour and misinformation," according to Mr. Christopher Jackson, Conservative Member of the European Parliament.

Introducing a report published today by the European Democratic Group, he said they had been unable to find any hard evidence of illegal subsidies to enable French Golden Delicious supplies to undercut traditional British apples like Cox's in the market.

But the report does show that the EEC intervention system discriminates unfairly against northern European varieties of apple.

"French Golden Delicious cost two-thirds as much to produce as Cox's but the Golden Delicious growers get an intervention price twice as high as for British apples."

This enabled the French to plan for an exportable surplus with intervention as an effective back-stop.

The intervention system should be scrapped, the report says, and the money saved (about £24m a year) spent on restructuring the apple-growing industry. It also calls for stricter control of grading so that only top-quality fruit is sold in the EEC.

The group will press for action to remove the disadvantages suffered by British growers before the new southern aple season starts in the autumn.

But it warns that the British will still need to improve their efficiency, especially in marketing, to benefit fully from any juster EEC regime.

£4.95 for BR breakfast

BY JAMES McDONALD

THE PRICE of British Rail's traditional English breakfast on Inter-City services, which has been similar to that of the Savoy Hotel, increases by 15 per cent today, from £4.30 to £4.95.

This is part of an average 10 per cent rise in refreshment prices in restaurant and buffet cars.

The increase is the second this year. British Rail said yesterday it had been necessary because of higher operating and material costs and staff pay rises. A 10 per cent rise in station buffet prices was introduced last week.

A British Rail traditional breakfast consists of a choice of porridge, cornflakes, fruit juice or grapefruit, kippers or egg, bacon and sausage, tea or coffee, toast, rolls, marmalade or honey.

Protest at companies' registrar plan grows

By Christine Moir

THE BRITISH Institute of Management has joined the growing chorus of protest against Government plans to reduce the Registrar of Companies' services.

The Trade Secretary's most controversial proposal, announced in a consultative document in April, is for abolition of the Register of Business Names.

The institute "strongly advises" the Trade Secretary to reconsider. The register is "an important protection to the public and should be extended, improved and run on an efficient commercial basis."

At present traders must register the names under which they operate, together with details of the ultimate owner.

The Registrar of Companies has said that the register is patchy and in many cases out of date. There is no incentive for businesses to register and no enforceable penalty for non-registration.

This has aroused considerable opposition from debt-collection and credit-rating companies. They believe that abolishing the register would make it much harder to trace the owners of small businesses.

A group of such companies is discussing ways of keeping the register going privately, even if the Government decides to abandon it.

But many feel that a privately-run register could be open to abuse and that could give rise to a "protection racket."

MICHAEL DONNE AT HENLEY

American crews win six of 12 events

AMERICAN crews, denied the opportunity of taking part in the Olympic Games, more than adequately compensated themselves at Henley Royal Regatta yesterday, winning 6 of the 12 events.

Among the trophies that the massive U.S. contingent of national, college and school crews are carrying home are: The Grand Challenge cup (the premier Henley Trophy); the Ladies Challenge Plate; the Prince Phillip Challenge Cup; the Silver Goblet Challenge Cup; the Princess Elizabeth Cup for Schools and the Stewards Challenge Cup.

The final of the Grand was superb, a clash of giants between two national crews who might otherwise have been meeting in the Olympics — the U.S. Charles River Rowing Association and the New Zealand Waikato and Wairau Club.

Charles River snatched an early lead and although heavily pressed, never lost it. They eventually won by one and a quarter lengths in the comparatively slow time for the Grand of 6 minutes 35 seconds.

The Charles River Club had a particularly good Henley, for in addition to the Grand they won the Prince Phillip Cup for coxed fours and the Stewards Cup for coxless fours.

St. Paul's School, from Concord, U.S., won the Princess Elizabeth Cup for Schools, while Yale University set the seal on this unprecedented run of American successes by capturing the coveted Ladies Challenge Plate from Witwatersrand University of South Africa.

Several other trophies went overseas including the Double Sculls Challenge Cup, won by the Victoria City Rowing Club of Canada. The Diamond Challenge Cup for single sculls was won by the Argentine national champion R. D. Ibarra.

'Downturn for power equipment suppliers'

BY [illegible] Williams

MANY UK power supply manufacturers which serve the electronic equipment industry will not survive the recession, says a report from market analysts, Larsen Sweeney.

Those which do survive may find their products becoming uncompetitive compared with European rivals it says.

"What must be disturbing for UK power supply manufacturers is that their competitors in West Germany, France, Sweden and Japan are receiving considerable governmental aid in one form or another," says the report.

Larsen Sweeney expects a geenral downturn throughout Europe in power uspply sales until 1986. For hte UK, is forecasts an average real growth of only 11.17 per cent a year compared with an earlier forecast of 33.3 per cent.

France's power supply industry is expected to grow in real terms by an average of 19 per cent in the six-year period compared with a previous forecast of 27.7 per cent. Germany is likely to have the bigbest European growth of 23.4 per cent in real terms.

Larsen Sweeney says that in addition to the industry's downturn there are signs that manufacturers are not adopting new technologies which bave been developed for power supplies. The analysts attribute this to reluctance to introduce and interest in the development of new models.

Rapid interest rate fall forecast

BY PETER RIDDELL, ECONOMICS CORRESPONDENT

INTEREST RATES are likely to fall quite rapidly in the second half of this year, Midland Bank economists forecast this morning.

The latest Midland Bank quarterly review — written before Thursday's one point cut in Minimum Lending Rate to 16 per cent—says such falls would be the result of the decline in economic activity to which the Budget measures have contributed.

The review says the first of the Government's objectives, bringing down the growth of the money supply, is at last beginning to seem within reach.

"The second stage will be to ensure that this feeds back to expectations about inflation and in particular into wage settlements. But this seems unlikely to occur of its own accord, at least until the actual rate of inflation is seen to be declining; and any marked deceleration still seems a long way off," the bank review argues.

After Thursday's MLR cut, stockbrokers Wood Mackenzie predicted further gradual reductions to about 13 per cent at the end of this year.

Other analysts remain concerned about some of the underlying monetary developments, particularly the trends of public spending and borrowing.

For instance, brokers de Zoete and Bevan argue that to react to political pressures by reducing interest rates even further, and before credit demands have subsided substantially, would risk creating a disequilibrium in the credit markets. The brokers see evidence that the budget deficit may now be rising.

Brokers James Capel and Co. forecast that public sector borrowing could exceed the £8.5bn limit for 1980-81 by between £1.5bn and £2bn unless further spending cuts are introduced.

The brokers note that strong recessionary forces now at work are likely to lead to an unprecedented drop of more than 4 per cent in total output, as measured by real Gross Domestic Product, between 1979 and 1980.

Brokers Phillips and Drew also discuss possible severe difficulties in controlling public spending both this year and in 1981-82. In the current financial year a moratorium on new local authority capital projects might offset some of the overrun on current spending and bring overall public borrowing down to £8.4bn.

This would mean the savings from the UK's EEC Budget contribution would not go to a cut in public borrowing as was originally hoped.

Looking ahead to 1981-82, Phillips and Drew say a combination of problems may threaten the Government's plans to cut public expenditure by 1.7 per cent in 1981-82.

Unemployment may be higher than the Treasury assumes, the relative price effect—the relationship of public-sector costs to prices generally—may be less favourable than assumed and the projection for interest payments may be too optimistic. Consequently, the Government may need a further round of cuts, amounting to £1bn, to hold next year's spending to the levels set out in the March White Paper.

Scottish Ferranti response praised

By Ray Perman, Scottish Correspondent

SCOTTISH financial institutions gave an entirely satisfactory response to the placing of Ferranti shares last week and bought a fifth of the equity on offer, Mr. Alex Fletcher, Scottish Industry Minister, said yesterday.

Scottish funds were criticised by Sir Arthur Knight, chairman of the National Enterprise Board. He said they bad not been as enthusiastic as expected, given the strong campaign from Scotland to persuade the Government to safeguard the company's independence.

Some institutions declined to take any shares because of the two-year restriction on sale imposed by the NEB at the Government's request.

Mr. Fletcher rejected any suggestion that Scotland had not played its part in taking up shares. Scottish funds had bought as much of the company as their weight relative to City of London institutions would suggest they should have done.

"In their normal canny way Scottish institutions were reflective about the deal, but they took a fifth of the placing, which was a perfectly respectable share.

"They would possibly have taken more if a Scottish bank or broker had been involved in the placing. It might have been helpful to have someone with good local knowledge and contacts."

The placing was made by Cazenove assisted by Greenwell, Tilney, and Savory Milln.

Mr. Fletcher said the 530p-a-share price had made some UK pension funds sceptical about the offer, in view of the two year embargo on sale. The fact that the offer had entirely been taken up indicated that the price had been judged correctly.

Seeking closer EEC links

AN EIGHT-MAN delegation from the North West Industrial Development Association will fly to Strasbourg today for a three-day visit to the European Parliament.

The aim is to build closer links between the EEC and North West Euro MPs

ELINOR GOODMAN AT THE TORY REFORM GROUP CONFERENCE

'Wets' seek the middle way

MR. PETER WALKER, Agriculture Minister, could hardly have chosen a more sympathetic audience for confession his doubts about current Conservative Party ideology than this weekend's Tory Reform Group meeting.

The 400 or so members at Warwick University would have felt that, as their patron, Mr. Walker would have let the side down if he had done anything but register dissent.

The Tory Reform Group is about as far from the Government as you can get and stay in the Conservative Party, without slipping over the other side into the Liberals. It stands for Disraeli's "One Nation" and the "middle way."

In its view, the Government has deserted these principles in a dogmatic pursuit of monetarism. The group agrees with the Government's basic belief in the need to put the economy in order, but it cannot stand what it regards as the Government's blinkered refusal to recognise the social and political implications of its policies.

The group believes its job is to counteract the pressures on the Government from what one member described as the "toadies" on the Right and to give moral backing to those arguing for a more flexible line in Westminster.

The conference was billed in advance by the group as the "weekend of the wets," and by comparison to some delegates' views, Peter Walker was a positive hawk.

Pay policy, Government intervention in industry, proportional representation and other such heretical ideas were heavy in the air.

At times, listening to the discussions of the delegates—mostly young, fresh-faced, mild-mannered and moderate in the extreme—it was difficult to believe they belonged to the same party as Mrs. Thatcher. This impression was strengthened by the fact that she was rarely mentioned by name.

When anybody wanted to refer to her policies, they tended to attribute them to Sir Keith Joseph, Industry Secretary. At the mention of his name a hiss of derision went round the room in much the same way as when Mr. Anthony Wedgwood Benn's name is mentioned at other Conservative gatherings.

Almost all the discussions began from the supposition that the Government was in danger of taking the wrong direction, if it had not already done so.

In one group, the chairman began by demanding to know whether there was anybody prepared to defend the Government's line on industrial democracy. A lone hand went up only to be withdrawn rapidly after the chairman had gazed disdainfully at it as if at some nasty intruder from the Monday Club.

Monetarism

The purpose of the meeting was to work "towards an alternative strategy." Asked what the strategy was supposed to be an alternative to, one delegate answered "Armageddon." A more frequent reply was strict monetarism.

The alterative was not always clear. While one study group was dismissing a formal incomes policy as unworkable, another group next door was much keener on the idea.

As one delegate said, unconsciously echoing the frustration of some Ministers, "ours is a much more complicated message to get over than theirs."

Generally, it was much easier to agree on what would not work—free collective bargaining, for example.

There was also a general consensus about what was wrong with Government policy and about the need—as Peter Walker put it—to "balance efficiency with compassion." And, if this means doing something to help industry and safeguard jobs, then this is a view which is beginning to be expressed by MPs who would flinch at the label "wet."

Mr. Nicholas Scott, one of four backbenchers present, said the group had succeeded this year in "nudging the Government's door open." There were some delegates who agreed that the group had scored significant successes in spite of the countervailing tide of monetarism.

The decision to go for a settlement in Rhodesia which involved all the black groups, rather than only Muzorewa's, was seen as one victory for the group's line.

Other delegates pointed to recent Government decisions to help individual industries. Some said the group's biggest triumph was the fact that the Right had not succeeded in getting anything like as much as it wanted out of the Employment Bill, now going to the Lords for its final stages.

But it has been the Right which has been getting all the publicity in the Parliamentary party recently, on both the Employment Bill and public expenditure cuts. Friday's opinion poll, showing the Government only just behind Labour in popularity in spite of escalating prices and unemployment, has hardly strengthened the hands of the doves in Cabinet.

"So what can we do to fight the toads and help Jim Prior?" one delegate asked, summing up the immediate task for the future. The answer seemed to be to provide those MPs and Ministers arguing for a more flexible approach in Westminster with evidence that they are not alone.

Strategy

In the long term, it was hoped, the group would produce some coherent alternative strategy. But, judging by the papers to emerge yesterday, all it can really hope to do is reflect the mood of a certain part of the party and hope the mood catches on.

One organiser said there were many MPs who believed in much of what the Tory Reform Group said although they would hate to be identified publicly with it.

"All we can do for the moment is act as a pretty small tail to the dog, and hope the dog starts moving our way."

Anti-competition Orders drafted

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

THE GOVERNMENT'S new powers to improve industrial competition may be brought into operation by the end of this month, after weeks of delay.

The Trade Department has confirmed that the enabling Orders, which bring the Competition Act's main section into force, have been drafted and will be laid before Parliament soon.

The new powers enable the Office of Fair Trading to investigate any anti-competitive practice by a single company or organisation. It can then refer the company to the Monopolies and Mergers Commission for a six-month probe.

The Trade Secretary is then empowered to force companies to abandon any practice which the commission decides is against the public interest.

The Government first announced new powers a year ago, when it scrapped the Price Commission. The Act did not reach the Statute Book until April and the enabling Orders took weeks to draft.

This led to speculation that the Government was dragging its feet because of pressure from industry which felt the new powers were too wide ranging. But this has been strongly denied by Mrs. Sally Oppenheim, Consumer Affairs Minister.

Once the enabling Orders are laid before Parliament, the Office of Fair Trading may decide to wait until they have cleared all the Parliamentary procedures, believed to take some 40 days.

But it may consider it important to get the first batch of four investigations under way, inspite of the technical problems caused by the Parlimentary delay.

Among the first group of investigations, the supply of milk to retailers through the Milk Marketing Board is understood to be a strong candidate.

The office is unlikely to begin a formal probe immediately into the supply of spectacles through opticians. Preliminary investigation has shown some legal difficulties because of the 1958 Opticians Act.

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
Current	Autumn 80 Lightshow (02488 396) (until July 10)	NEC, Birmingham
July 8-10	Great Yorkshire Agricultural Show (0423 61536)	Harrogate
July 9-26	Royal Tournament (01-930 6009)	Earls Court
July 11-20	Taste of Asia Exhibition (01-272 4287)	Olympia
July 15-16	Exhibition and Conference on Micro Technology—MICROFAX (061-236 4612)	Manchester
July 18-20	Motor Cycle Show (0384 56348)	Chester
July 20-24	Gift Fair (0282 867153)	Exhibition Centre, Harrogate
July 22-24	Microcomputer Show (0895 39262)	Wembley Conference Centre
Aug. 1-4	Scottish Furniture Trades Exhibition (041 649 1954)	Kelvin Hall, Glasgow
Aug. 3-7	International Gifts Fair (01-855 9201)	Olympia
Aug. 13-15	Computer Graphics Exhibition (09274 28211)	Metropole Hotel, Brighton
Aug. 14-25	Ideal Home and Leisure Exhibition (0202 20327)	Newcastle University
Aug. 17-23	British Musical Instruments Trade Fair (01-855 9201)	Olympia
Aug. 20-23	Ideal Home and Trade Exhibition (06333 64538)	Leisure Centre, Pontypool
Aug. 20-25	Modern Homes Exhibition (0253 54676)	Guildhall, Preston
Aug. 23—25	Trade and Entertainments Exhibition (0689 36431)	Moat Park, Maidstone

OVERSEAS TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
Current	International Training and Educational Symposium and Exhibition—INSTRUCTA (01-486 1951) (until July 11)	Johannesburg
July 11-17	National Boat Show	Melbourne
July 16-24	International Photogrammetry Trade Exhibition	Hamburg
July 26-Aug. 3	Trade Fair	Dornbirn
Aug. 8-17	Modern Family Exhibition (02013 4450)	Hamburg
Aug. 10-14	National Hardware Show	Chicago
Aug. 11-17	International Fisheries Fair	Oslo
Aug. 19-Sept. 4	International Exhibition of Agriculture and Food Industry—OMEC	Budapest
Aug. 20-Sept. 20	International Fair	Izmir
Aug. 22-24	Wellington Home Show	Wellington, New Zealand
Aug. 23-27	World Woodworking Exposition	Atlanta
Aug. 26-29	Offshore North Sea Technology Conference and Exhibition	Stavenger
Aug. 30-Sept. 3	International Bridge and Structural Engineering Exhibition	Vienna

BUSINESS AND MANAGEMENT CONFERENCES

Date	Title	Venue
Current	University of Bradford Management Centre: Sales Management (Bradford 42299) (until July 11)	Heaton Mount, Bradford
July 7-11	Institute of Personnel Management: The Work of The Personnel Department (01-387 2844)	Embassy Hotel, W2
July 8	BIM: Micros—The real costs and how to fund them (01-405 3456)	Mount Royal Hotel, W1
July 9	Institute of Chartered Secretaries: The Companies Act 1980 in Practice (01-580 4741)	London Press Centre
July 9-10	The Plastics and Rubber Institute: Plastics on the Road (01-245 9555)	Kenilworth
July 11	ESC: Norwegian Taxation: A specialist conference for the oil and gas industry (057 282 2711)	Carlton Tower Hotel, SW1
July 14-18	ASM: Inventory Control and the Microcomputer (01-385 1992)	Pembroke College, Oxford
July 14-25	FT Course: Financial Management for the non-financial executive (01-621 1355)	The City University
July 15	Oyez IBC: Estate Agents' Remuneration—Sell a Property and get no commission? (01-242 2481)	Duchess Mews, W1
July 16	LCCI: Iraq (01-248 4444)	Cannon Street, EC4
July 17	Oyez-IBC: How to Cope with Personnel Problems (01-242 2481)	Cavendish Conference Centre, W1
July 17-18	Brunel Institute: Inter-Personal Effectiveness Workshop (0895 56461)	Uxbridge
July 20-25	Oyez-IBC: The Language of the Law (01-242 2481)	Lady Margaret Hall, Oxford
July 23-24	The Institution of Civil Engineers: Flood Studies Report—5 years On (01 222 7772)	University of Manchester
July 22-23	Online: Microelectronic Applications (09274 28211)	Wembley Conference Centre
July 22-23	University of Bradford Management Centre: The Causes and Symptoms of Company Failure (Bradford 42299)	Heaton Mount, Bradford
July 23	Bacie: Introduction to Television in Training (01-636 5351)	City University, London
July 28-Aug. 15	Compower Training School: Basic COBOL (Cannock 2511)	Cannock, Staffs
Aug. 3—Oct. 24	Bacie: Overseas Training Officers Programme (01-636 5351)	Oxford
Aug. 4-6	MSS: Inventory Management and Control (Worthing 34755)	Worthing
Aug. 6	LCCI: Middle East and North Africa Section "At Home" (01-248 4444)	Cannon St., EC4
Aug. 7-8	British Institute of Management: Effective Speaking—Practice and Coaching using Closed Circuit TV (01-405 3456)	Parker Street, WC2
Aug. 10—24	University of Western Ontario: The 1980 International Symposium on Solar Energy Utilization	Ontario, Canada
Aug. 11—15	CCC: Practical Introduction to UK Business Law (01-222 6362)	Trinity Hall, Cambridge
Aug. 11—12	MSS: Principles of Work Study and Incentive Schemes (0903 34755)	Worthing
Aug. 11—22	CEI: International Financial Management Seminar	Geneva
Aug. 18—19	The British Institute of International and Comparative Law: Multinational Corporations and the International Law Standard (01-636 5802)	Royal Garden Hotel, W8
Aug. 26—28	FT Conference: Aerospace into the Eighties and Beyond (01-621 1355)	Royal Lancaster Hotel, W2
Aug. 28—29	BIM: Rapid and Efficient Reading (01-405 3456)	Parker Street, WC2

UK NEWS—LABOUR

Call for summit on the North's problems

By John Lloyd, Labour Correspondent

A "SUMMIT conference" on the economic problems of the North has been called for by the North Eastern council of the TUC.

The call at the council's quarterly meeting at the weekend, follows the publication of the worst redundancy figures for years.

They showed that nearly 20,000 workers were laid off in the first six months of this year, only a few hundred less than in the previous 12 months, and nearly 2,000 more than in 1978.

Mr. Joe Mills, regional secretary of the Transport and General Workers Union who proposed the summit, said that it should include industry, commerce, the banks, senior civil servants, academics and MPs of all parties, as well as the trade unions.

"All of these organisations have been making representations to Government on our high rate of unemployment for many years now. The time has come for all the organisations to speak with one voice and say, enough is enough."

Rail union draws detailed plans to shut network

BY PHILIP BASSETT, LABOUR STAFF

BRITAIN'S BIGGEST rail union, the National Union of Railwaymen, has drawn detailed plans for selective strike action by key signalmen. Union leaders say it could shut the country's rail network.

There are two reasons for the confidential plans. They are designed to be ready to support a pay dispute over the "substantial" claim agreed last week by the union's annual conference in Guernsey. They could also be used to combat any court decision affecting the union arising from the provisions of the Government's Employment Bill when it becomes law.

Mr. Sid Weighell, NUR general secretary, warned conference delegates: "We may be faced next year with the need to take industrial action. This legislation is designed to curb us and inflict punishment on our families if we go on strike."

Government officials are already concerned about the growing tendency of unions in the public services to use selective action, especially against computer installations.

Details of the union's plans have been put together by senior union officials based on a series of reports prepared at local level by district officers.

Local officials were asked by Mr. Weighell to identify signal boxes in their areas which, if closed by striking operators, would have the maximum disruptive effect on rail services in the area.

The union represents about 7,700 signalmen manning about 2,000 boxes. The boxes most likely to bear the brunt of selective action would be the 200 or so controlling the most important stretches of track.

The effect of withdrawing crucial signal staff can be gauged by the complete stoppage of all services earlier this year in and out of London's Paddington Station. Then, signalmen at the Old Oak Common box between Paddington and Hayes, Middlesex, were pulled out over the alteration of working rosters.

Mr. Weighell said that if the signalmen at the selected list of boxes were withdrawn "we could stop the country."

The union hopes to minimise the financial burden of any dispute over pay or the Employment Act by instructing only this small number of workers to strike rather than using the blunter—and more expensive—weapon of action by the full 180,000-strong membership.

● British Rail is prepared to ask its unions to ballot members if union leaders fail to agree on proposals designed to improve railway productivity. The proposals were an integral part of this year's 20 per cent deal for BR's 180,000 main-line workers.

While senior BR officials recognise that such a determined stand over the productivity improvements to freight, parcels and administrative services could lead to confrontation, they are prepared for the rail network to be shut by industrial action in their efforts to see the changes implemented.

Sir Peter Parker, BR chairman, and other board members, were particularly displeased with reports of a speech made by Mr. Bill Ronksley, ASLEF president, at the union's Sheffield conference. Mr. Ronksley was reported as casting doubt over the union's acceptance of the productivity proposals, calling them "slavery."

Benn hints at wages policy

By John Lloyd, Labour Correspondent

MR. ANTHONY WEDGWOOD BENN, the Labour Party's leading Left-winger, and former Cabinet Minister, said yesterday that the new type of consensus which he wants to see between Government and the trade unions would include a wages policy of sorts.

Mr. Benn said on ITV's programme Trade Union Power, that the consensus would involve broadening collective bargaining from merely wages to include investment and other aspects of corporate policy.

He said it would include wages as part of the collective bargaining process. But it would not isolate wages and say if you control wages, the economy would recover—it would not.

Mr. Benn saw this stage of the consensus as one in which Labour was "an equal partner" with business. In the next stage, Labour would be the major partner.

The previous stage had seen it as the junior partner, where incomes policies were imposed from above by both Labour and Conservative governments, and rejected by the unions.

ROBIN REEVES ON WELSH MINERS' FEARS

Call for help from the pits

SOUTH WALES miners see this week's annual conference of the National Union of Mineworkers in Eastbourne as one of the most important in their long, turbulent history.

Mr. Emlyn Williams, the South Wales Miners' president, and the rest of his delegation arrive with a demand from the coalfield's 26,000 miners for industrial action should the National Coal Board attempt to close pits because of loss of markets.

Anything less than a solid endorsement of this long-standing policy by the rest of the British miners will be regarded as a serious setback to South Wales's prospects of fighting off pit closures and redundancies.

They may face scepticism. Last year's NUM conference in Guernsey was notable for the Welsh miners' appeal for a flexing of industrial muscle against the threatened closure of Deep Duffryn colliery in Mid-Glamorgan. They got it, but when they had squeezed an extra £500,000 out of the NCB to explore a new face at the pit, the geology proved unfavourable and the Deep Duffryn colliers themselves eventually gave up the fight three months later.

But this time the South Wales fears seem justified. Although the Coal Board has officially announced the closure of only one pit—Tymawr Lewis Merthyr in the Rhondda—it is clear that many more are threatened.

Pressed by the Commons Select Committee on Welsh Affairs in May, Mr. Philip Weekes, the NCB's South Wales director, admitted that of the 35 remaining South Wales collieries, six employing 4,200 men would need to be closed in the near future to cut mounting financial losses.

Moreover, if the NCB proved unable to extend the special subsidy it has extended to coking coal this year, six more collieries employing the same number would also have to close. Among them, these pits were now losing up to £20 a tonne, or a total of £35m a year. "They are the great albatross around the neck of the South Wales coalfield," Mr. Weekes said.

Since he spoke, the outlook has become even bleaker. The overriding reason for the South Wales coalfield's suddenly deteriorating finances is the drastic cutback in the Welsh Steel industry. BSC's decision to halve steel production at Port Talbot and Llanwern and rely entirely on imported coking coal at Port Talbot has already reduced the market for South Wales coking coal by 1.7m tonnes in a full year.

Now there is evidence that one of the first acts of Mr. Ian MacGregor, BSC's new chairman, could be to close one of the two works. And if, as seems more likely, Llanwern is axed (it has no deep water port) this will wipe out the market for 1.4m more tonnes of coking coal, boosting the number of threatened pit closures to 20 and redundancies to 15,000.

In addition, a £40m capital injection required to modernise the phurnacite plant in the Cynon valley looks unlikely to be obtained. This means the plant, and the four pits which supply it with coal for processing, will have to be run down gradually over the next few years, wiping out another 5,000 jobs.

Seeing this scenario unfolding Wales TUC leaders issued their call last Christmas for an all-out strike in the steel, coal and transport industries from January 21 — to obtain a two-year delay in the steel rundown.

This display of Welsh initiative was firmly sat upon by the British TUC leadership in London, whereupon Mr. Williams and his executive attempted to "recover the position" by going it alone and calling out the miners alongside the striking steelworkers. Mr. Williams freely admitted it was an act of political confrontation. "We shall be missing the boat if the steelworkers go back to work and are defeated on jobs," he said at the time.

In the event the strike call was rejected, and with it collapsed all resistance to BSC's retrenchment.

Even so, Mr. Williams is confident his miners will answer the call next time. He interprets the rejection as a a refusal to go it alone. Others have suggested the miners thought they were coming out a few weeks later anyway. Whatever the reason, because of the February debacle, an unprecedented campaign of "education" was mounted this time at pit-head meetings of every shift to secure the anti-closure mandate for the conference.

Mr. Williams says events too are strengthening his case. His men have been shocked at the inability of the Coal Board to redeploy more than 50 per cent of the Tymawr Lewis Merthyr miners at other pits.

That said, the Welsh miners clearly need the support of the conference, if they are to sustain their militant stance against pit closures.

Although the Welsh coalfied is most affected, the contraction of the steel industry and increased cheap coal imports from the U.S., Australia and South Africa also threaten to take their toll of pits in other coalfields, particularly now that the Government has decided in the new Coal Bill to phase out production subsidies by 1983-84. "Arthur Scargill's statement that 50 pits are in danger has never been really repudiated," Mr. Williams adds.

When the crunch will come, however, is still uncertain. Tymawr Lewis Merthyr colliery is being investigated by two mining engineers representing the two sides of the industry to see if productivity can be improved — a compromise formula put forward by Mr. Joe Gormley, the NUM president. In the meantime, the review of 11 other pits is hanging fire. Indeed, manoeuvrings by the NUM the NCB and, behind the scenes, the Government, could continue for many months.

But it is difficult to see how in the long run a confrontation will be avoided. The Welsh miners simply feel they have their backs to the wall and are ready to fight.

FT Monthly Survey of Business Opinion

GENERAL OUTLOOK

Confidence drops again

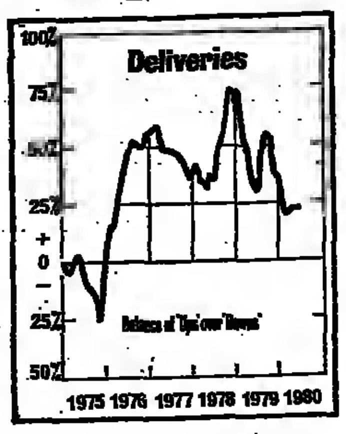
The general level of confidence in industry fell again in June after two successive months in which companies had declared themselves more optimistic. The index registering the overall tenor of business opinion thus came down again to near the very low levels reached at the end of 1979.

The three groups of companies interviewed for the June survey — engineering (non-electrical), chemical and oil companies and the shipping and transport sector — all said they were less optimistic than they had been when last surveyed in February.

The onset of recession, a drop in order levels, high interest rates and the strong pound featured among industry's main list of complaints. One respondent in the chemicals and oil group said the situation was as bad as it had been at any time since he started in business 32 years ago.

However, there was rather more optimism in the shipping sector, partly on anticipation of reflationary measures in the U.S.

The index of optimism over the UK economy also showed a *fall after two* successive increases. This was mainly because of depressed confidence in engineering and shipping and transport.



GENERAL BUSINESS

Are you more or less optimistic about your company's prospects than you were four months ago?	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elec.) %	Chems. & Oils %	Shipping & Transport %
	4 monthly moving total				June 1980		
More optimistic	23	25	24	18	—	5	27
Neutral	35	37	34	34	24	21	37
Less optimistic	42	38	42	48	76	74	36

EXPORT PROSPECTS (Weighted by exports)

Over the next 12 months exports will be:	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elec.) %	Chems. & Oils %	Shipping & Transport %
	4 monthly moving total				June 1980		
Higher	49	45	49	47	36	62	51
Same	18	21	22	29	34	17	1
Lower	30	32	27	22	22	21	48
Don't know	3	2	2	2	8	—	—

ORDERS AND OUTPUT

Further drop in orders

Industry appears to have been hit by a further drop in orders received last month. The new orders index, which was already at a severely depressed level, fell again. There was *little change* in the indices covering recent deliveries and the level of order books, which had also shown a significant slump in recent months.

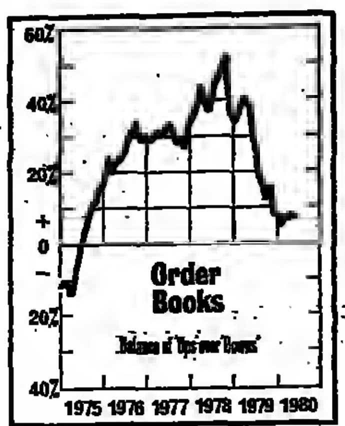
The engineering sector reported a particularly depressed orders position. Destocking by customers as well as a fall-off in capital investment have both contributed to a drop in demand.

All three sectors expected smaller increases in output over the next 12 months than they had done in February.

One engineering company said it was unable to forecast order-book levels as the rate of dropped orders by customers was "chaotic."

In the chemical sector, the uncertain exchange rate was said to be particularly affecting pharmaceutical companies.

Somewhat against the generally pessimistic trend, all three sectors expected the value of exports to increase during the next 12 months. Although the strong pound was still affecting overseas sales, several companies thought the UK recession might allow more promising markets to be explored in Europe and elsewhere.



NEW ORDERS

The trend of new orders in the last 4 months was:	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elec.) %	Chems. & Oils %	Shipping & Transport %
	4 monthly moving total				June 1980		
Up	32	36	34	35	6	29	49
Same	18	20	21	19	28	—	24
Down	20	19	17	15	52	31	—
No answer	30	25	28	31	14	40	27

PRODUCTION/SALES TURNOVER

Those expecting production/sales turnover in the next 12 months to:	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elec.) %	Chems. & Oils %	Shipping & Transport %
	4 monthly moving total				June 1980		
Rise over 20%	3	5	6	6	—	3	—
Rise 15-19%	4	7	6	5	6	—	—
Rise 10-14%	4	5	11	14	—	—	—
Rise 5-9%	21	21	22	20	1	14	15
About the same	57	54	47	46	62	65	73
Fall 5-9%	1	1	1	0	—	—	—
Fall over 10%	3	1	1	1	28	—	—
No comment	7	6	6	8	3	18	12
Median change	3.6	4.2	4.8	4.9	0.8	1.6	3.5

CAPACITY AND STOCKS

Companies working below target

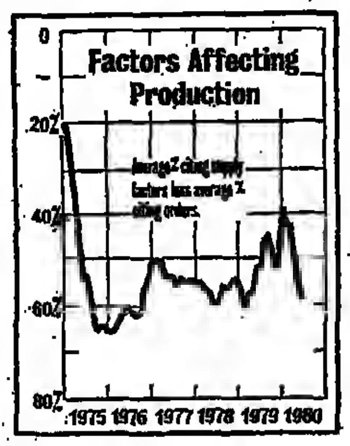
More than half the companies interviewed in the chemicals/oil and shipping/transport sectors reported that they were working below target capacity.

Nearly half the firms in the engineering sector also gave this answer. As a result, the index of the percentage of companies working at planned output levels or above has started to fall after holding up quite well during the past few months.

More companies reported that their stock levels were generally too high. This was felt particularly by the chemicals and oils sector.

The general response was, however, that levels of stocks of raw materials and components would probably increase over the next 12 months. The volume of work in progress was expected to remain unaltered.

Among factors affecting production, all three sectors reported that output was being hit by a shortage of home orders. There was a reduction in the percentage saying that output was affected by shortages of skilled factory staff.



STOCKS

Raw materials and components over the next 12 months will:	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elec.) %	Chems. & Oils %	Shipping & Transport %
	4 monthly moving total				June 1980		
Increase	31	34	29	22	—	19	12
Stay about the same	40	36	33	35	37	53	61
Decrease	25	23	29	31	63	28	24
No comment	4	7	9	12	—	—	3
Manufactured goods over the next 12 months will:							
Increase	19	22	19	18	—	9	24
Stay about the same	46	45	40	36	42	58	37
Decrease	19	18	21	22	—	30	—
No comment	16	15	20	24	58	3	39

FACTORS CURRENTLY AFFECTING PRODUCTION

	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elec.) %	Chems. & Oils %	Shipping & Transport %
	4 monthly moving total				June 1980		
Home orders	85	80	76	73	94	97	100
Export orders	48	50	44	43	80	60	73
Executive staff	9	9	12	11	—	—	—
Skilled factory staff	15	19	24	27	31	3	12
Manual labour	0	2	4	5	3	—	—
Components	1	6	11	11	—	—	—
Raw materials	15	19	19	17	—	—	24
Production capacity (plant)	9	11	11	12	17	1	49
Finance	1	2	2	2	—	—	—
Others	8	11	12	12	—	14	—
Labour disputes	16	26	32	35	—	3	—
No answer/no factor	8	8	7	2	6	—	—

CAPACITY WORKING

	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elec.) %	Chems. & Oils %	Shipping & Transport %
	4 monthly moving total				June 1980		
Above target capacity	6	6	7	9	34	—	—
Planned output	62	68	66	63	20	39	24
Below target capacity	31	25	26	26	46	61	73
No answer	1	1	1	2	—	—	3

INVESTMENT AND LABOUR

More lay-offs expected

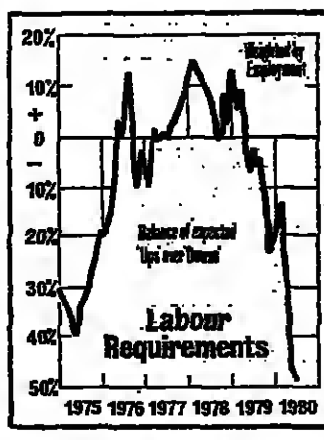
Companies expect to shed their workforces further in coming months as a result of the general corporate squeeze and slump in demand. The index registering expected labour requirements dipped again last month following the very sharp fall recorded in May. It has now dropped to some way below the point registered at the trough of the 1975 recession.

The shipping and transport sector was particularly gloomy about the employment outlook.

Shortages of demand rather than supply-side factors are now clearly blamed by respondents for the expected need to prune their labour forces.

The index covering the outlook for capital spending recovered slightly last month following the rise in May. Chemicals and oils were more restrained than the other two sectors about investment prospects.

As far as capital requirements are concerned, companies reported *slightly* more use of various types of outside finance such as overseas borrowing, acceptance credits and term loans.



LABOUR REQUIREMENTS (Weighed by employment)

Those expecting their labour force over the next 12 months to:	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elec.) %	Chems. & Oils %	Shipping & Transport %
	4 monthly moving total				June 1980		
Increase	6	6	15	16	6	5	—
Stay about the same	36	35	36	37	56	39	32
Decrease	55	53	43	41	38	56	68
No comment	3	6	6	6	—	—	—

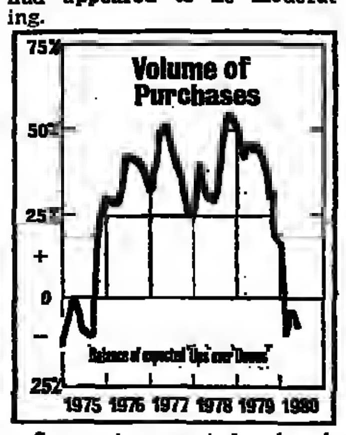
CAPITAL INVESTMENT (Weighed by capital expenditure)

Those expecting capital expenditure over the next 12 months to:	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elec.) %	Chems. & Oils %	Shipping & Transport %
	4 monthly moving total				June 1980		
Increase in volume	31	30	26	28	13	51	7
Increase in value but not in volume	18	22	19	15	6	31	—
Stay about the same	16	14	12	12	50	17	—
Decrease	34	32	36	33	31	1	93
No comment	1	2	7	12	—	—	—

COST AND PROFIT MARGINS

Inflationary pressures build up

Inflationary pressures on industry appear to be building up again after several months in which cost and price increases had appeared to be moderating.



Companies reported a sharply higher level of expected price increases over the next 12 months, with the median expected figure working out at 15½ per cent. At the same time, the level of forecast cost increases rose to its highest point since January, 1976, with the median rise over the next 12 months put at 15½ per cent.

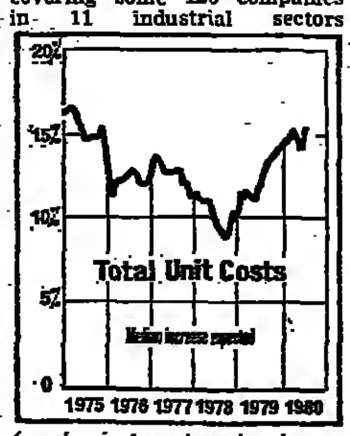
The median expected rise in wages was unchanged at around 17½ per cent. But all three sectors felt that other costs would rise more steeply.

The index measuring projected profit margins fell back for the second month running.

These surveys, which are carried out for the Financial Times by the Taylor Nelson Group, are based upon extensive interviews with top executives.

Three sectors and some 30 companies are covered in turn every month. They are drawn from a sample based upon the FT Actuaries' Index, which accounts for about 80 per cent of all public companies.

The all-industry figures are four monthly moving *totals* covering some 120 companies in 11 industrial sectors (mechanical engineering is surveyed every second month).



Complete tables can be purchased from Taylor Nelson and Associates.

COSTS

Wages rise by:	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elec.) %	Chems. & Oils %	Shipping & Transport %
	4 monthly moving average				June 1980		
10-14%	13	11	13	17	21	44	—
15-19%	66	68	64	56	55	37	73
20-24%	15	13	14	16	23	16	24
No answer	6	8	9	11	1	3	3
Unit cost rise by:							
0-4%	4	4	5	5	—	—	—
5-9%	4	5	6	3	—	—	—
10-14%	30	37	30	31	7	16	—
15-19%	42	32	30	31	67	73	98
20-24%	5	4	7	9	20	—	—
25-29%	0	—	—	—	—	1	—
No answer	15	18	22	21	6	10	2

PROFIT MARGINS

Those expecting profit margins over the next 12 months to:	Mar.-June %	Feb.-May %	Jan.-Apr. %	Dec.-Mar. %	Eng. (non-elec.) %	Chems. & Oils %	Shipping & Transport %
	4 monthly moving average				June 1980		
Improve	42	43	46	36	28	36	3
Remain the same	27	28	27	34	42	6	73
Contract	28	25	23	26	30	58	—
No comment	3	4	4	4	—	—	24

APPOINTMENTS

Simon Engineering Board post for Sir Leslie Murphy

Sir Leslie Murphy has been appointed to the Board of SIMON ENGINEERING as a non-executive director. Sir Leslie was chairman of the National Enterprise Board from 1977-79.

★

Mr. P. E. Gough, production manager, and Mr. J. C. Jardine, sales manager have been appointed directors of BORDER BREWERIES (WREXHAM). Mr. Christopher F. Huntley has retired as a director.

★

Mr. Norman J. Smith has been appointed chairman of BRITISH UNDERWATER ENGINEERING, succeeding Mr. John Spiers who remains on the Board as non-executive director. Mr. Roger J. Kendrick has been made managing director in place of Mr. David Sadler and Mr. Alan C. Milton becomes technical director.

★

BARING BROTHERS ASIA has made the following changes: Mr. A. M. L. Tuckey has taken over as chairman from Mr. N. H. Baring, who remains on the Board. Mr. P. G. R. Dodds has succeeded Mr. J. Fawthrop as banking director and Mr. J. E. Heskett has succeeded Mr. C. L. A. Irby as corporate finance director, both resident in Hong Kong. Mr. A. M. Smith, at present resident in Malaysia, has been appointed a director. Mr. J. Fawthrop and Mr. C. L. A. Irby have returned to Baring Brothers in London.

★

Mr. H. R. Aucock, aviation underwriter and Mr. C. E. B. Fox non-proportional treaty reinsurance underwriter, have been appointed to the Board of ROBERT BRADFORD AND CO. (AGENCIES) the underwriting management subsidiary of Minster Insurance Company.

★

Sir Edward Singleton has become chairman and Mr. John Swanborough, group managing director of the SOLICITORS' LAW STATIONERY SOCIETY. Mr. R. A. Hodges is to resign as chairman and group managing director.

★

Dr. Trevor Lamb has been appointed a non-executive director of W. CANNING. Since 1974 he has been a director of IMI with responsibility for overseas and marketing. He is also chairman of the IMI Valve and Australasian Groups.

★

The BANK OF ENGLAND states that Mr. R. J. Clifford, at present an adviser on development and export finance within the territorial division, will succeed Mr. D. A. C. Nendick as agent at the Birmingham branch from September 1. Mr. Nendick will be returning to London to work in the new financial structure and institutions division.

★

Mr. B. J. Taylor has been appointed assistant managing director of BLOCKLEYS following the retirement of Mr. A. H. Jones. Mr. J. W. H. Shepherd has been made a director.

★

Mr. Alan G. Smith has been appointed deputy chairman of PERCY BILTON and continues as joint managing director.

★

Mr. Trevor Mawby, company secretary, has been appointed to the board of WALTER LAWRENCE. Mr. Donald Mewat has also joined the board as a non-executive director. Mr. Rodney Martin, previously deputy group managing director, has been made group managing director.

★

Mr. A. C. Landsman has become financial director and company secretary, and Mr. J. I. Steinberg and Mr. N. A. Steinberg, directors of STONEHILL HOLDINGS.

INSURANCE

The lengthening tail of potential liability

BY OUR INSURANCE CORRESPONDENT

THE TAIL of potential liability grows even longer with the development of medical research, the increase in compensation-consciousness and the relaxation of the time rules for making legal claims.

In recent years the courts have had to deal with a growing number of compensation claims for industrial dermatitis, pneumoconiosis, deafness and cancer arising from previous decades. Some claims had their origins in wartime processes and conditions.

For employers, their lawyers and insurers there is a constant flow of judicial comment, but still a high degree of uncertainty.

The employer faced with a claim from a *sometime* employee, arising, say, out of working conditions in the early 1960s, cannot turn to his present employer's liability insurers and ask for protection.

Almost without exception, insurers provide cover in terms such as these: "The company will indemnify the policyholder in respect of all sums which he will become legally liable to pay as compensation for bodily injury (including disease) sustained out of and in the course of his employment by any employee during the period of indemnity . . . ."

Cover exists only for injury sustained or disease contracted during the year of insurance. When the employer gets a claim relative to the early 1960s, he must turn to his records, find out who his insurers were and ask them to handle the claim.

If his records have been lost or destroyed, he may not be able to pass the claim on to any insurer. Then he may have to handle and pay the claim himself, if he is held to be liable.

There is a further legal complication. Under normal limitation periods applicable to contract, the 1960s insurer is seemingly entitled to say to the sometime policyholder that any claim notified more than six years from his policy's expiry date is a claim made out of time and not acceptable.

In practice, however, insurers seem to accept old claims where the employer can prove he had insurance. Employer's liability insurers are now being asked to add retrospective insurance to their events occurring policies.

Arguably, any risk is insurable at a price. But the price for providing retrospective cover must be high, even where the employer has not been involved in any hazardous process known so far to be productive of a volume of long tail claims, and has a good claims record in current terms. Who knows what new causes of compensation claim can be discovered?

Market comments make it clear that retrospective cover must be hard to come by, obtainable only after in-depth information to insurers on past processes and claims experience, and over much longer than normally required as the background for providing liability cover.

BASE LENDING RATES

A.B.N. Bank	16 %	■ Hambros Bank	16 %
Allied Irish Bank	17 %	■ Hill Samuel	§17 %
American Express Bk.	17 %	C. Hoare & Co.	†17 %
Amro Bank	17 %	Hongkong & Shanghai	16 %
Henry Ansbacher	16 %	Industrial Bk. of Scot.	17½%
A P Bank Ltd.	16 %	Keyser Ullmann	17 %
■ Arbuthnot Latham	17 %	Knowsley & Co. Ltd.	19 %
Associates Cap. Corp.	17 %	Langris Trust Ltd.	17 %
Banco de Bilbao	17 %	Lloyds Bank	16 %
Bank of Credit & Cmce.	17 %	Edward Manson & Co.	17 %
Bank of Cyprus	17 %	Midland Bank	16 %
Bank of N.S.W.	17 %	■ Samuel Montagu	16 %
Banque Belge Ltd.	16 %	■ Morgan Grenfell	16 %
Banque du Rhone et de la Tamise S.A.	16½%	National Westminster	16 %
Barclays Bank	16 %	Norwich General Trust	16 %
Bremar Holdings Ltd.	17 %	P. S. Refson & Co.	17 %
Brit. Bank of Mid. East	16 %	Rossminster	17 %
■ Brown Shipley	17 %	Ryl. Bk. Canada (Ldn.)	17 %
Canada Perm't Trust	18 %	Schlesinger Limited	16 %
Cayzer Ltd.	17 %	E. S. Schwab	17 %
Cedar Holdings	17 %	Security Trust Co. Ltd.	18 %
■ Charterhouse Japhet	17 %	Standard Chartered	16 %
Choulartons	17 %	Trade Dev. Bank	17 %
C. E. Coates	17 %	Trustee Savings Bank	16 %
Consolidated Credits	17 %	Twentieth Century Bk.	17 %
Co-operative Bank	*16 %	United Bank of Kuwait	16 %
Corinthian Secs.	16 %	Whiteaway Laidlaw	17½%
The Cyprus Popular Bk.	17 %	Williams & Glyn's	16 %
Duncan Lawrie	17 %	Wintrust Secs. Ltd.	17 %
Eagil Trust	16 %	Yorkshire Bank	16 %
E. T. Trust Limited	17 %		
First Nat. Fin. Corp.	19½%		
First Nat. Secs. Ltd.	19 %		
Robert Fraser	17 %		
Antony Gibbs	17 %		
Greyhound Guaranty	17 %		
Grindlays Bank	16 %		
■ Guinness Mahon	16 %		

■ Members of the Accepting Houses Committee.
* 7-day deposits 14%. 1-month deposits 14¼%.
† 7-day deposits on sums of £10,000 and under 12%, up to £25,000 15¼% and over £25,000 15½%.
‡ Call deposits over £1,000 14%.
§ Demand deposits 15%.

Public Works Loan Board rates

Effective from June 28

Years	Quota loans repaid by EIP†	Quota loans repaid A‡	Quota loans repaid at maturity§	Non-quota loans A* repaid by EIP†	Non-quota loans A* repaid A‡	Non-quota loans A* repaid at maturity§
Up to 5	13¼	13¼	12	14¼	14¼	13⅞
Over 5, up to 10	13¼	13¼	13¼	13¾	13¾	14⅛
Over 10, up to 15	13¼	13¼	13¾	14	14¼	14¼
Over 15, up to 25	13¼	13¼	13¾	14¼	14¼	14¼
Over 25	13¼	13¼	13¼	14¼	14¼	14¼

* Non-quota loans B are 1 per cent higher in each case than non-quota loans A. † Equal instalments of principal. ‡ Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payment of interest only.

Technical Page

EDITED BY ARTHUR BENNETT AND TED SCHOETERS

● SHIPPING

Dredger will also collect oil

DUE TO be launched at IHC's Smit Yard at Kinderdijk, Holland, on July 11 the company'e latest dredger the Cosmos has been designed also to act as an oil recovery vessel.

The company says that when the vessel is used for harbour entrance maintenance it operates as an ordinary trailing suction hopper dredger, but when on oil recovery duty it extenda two "sweeping arms." During oil skimming a forward speed of up to 2 knots is maintained to clear of 50 metres wida path. It is claimed that about 180,000 square metres of sea surface an hour can be cleaned.

Surface oil caught by the booms is guided by collector blades to hydraulically-operated pumps which hava a capacity of 1,000 cubic metres of nil/water mixture per hour. The mixture is pumped through flexible boses to the vessel's 5,375 cubic metre hopper and to additional storage tanks holding 960 cubic metres.

Time for mobilisation of the vessel for nil recovery is negligible, says IHC, as the crew is already on board and the recovery equipment installed. If dredging, the vessel can dump its load and head for the oil spill area, where it can nperate at wave beights of 1.5 metres.

This combined maintenance dredger and nil recovery vessel is 113.6 metres long has a beam of 20 metres and top speed of 13.7 knots. It will be owned by Cosmos Dredging v.o.f. of Hook of Holland which in turn is owned by Holland Dredging Company, Royal Bos Kalis Westminster Group NV and Royal Volker Stevin NV.

● IN THE OFFICE

Lettering machine

ENGINEERS AND architects in the UK are offered an inexpensive, desk-top lettering machine (supplied in electric or manual fnum) which produces "type on tape" in a wide range nf typefaces and sizes.

Untrained personnel can easily and speedily effect permanent dry-carbon lettering in a choice of colours on self-adhesive opaque, transparent or special diazo translucent tape, says maker Kroy Industries, PO Box 43716, St. Patil, Minnesota 55164, USA.

The user rotates the typedisc on the KroyType 80 to nbtain the required letter or symbol—then pushes a button. Proportional letter spacing is automatic and adjustable. Pusb of a second button releases the word or line and the operator then bas only to remove the backing and press the tape into positian on the engineering or design drawing.

● INSTRUMENTS

Easy way to freeze motion

FIBRE STROBE is a cold-light unit from Edward Fletcher and Partners which delivers a powerful beam through its flexible fibre-optic light-guide and also has strobe facilities.

One output connection gives steady quartz halogen light, and the nther (fed from a second quartz halogen source) is strobed at variable frequency. This means that rotating and reciprocating mechanisms can be observed — even in the most inaccessible places—in "frozen" motion. Speeds from 500 to 5600 strobe flashes a minute are accommodated by the standard fibre strobe, but the range 1000 tn 11200 is available to special order.

EFP can also supply an l.e.d./photocell trigger that will keep the lamp freqnency locked on to mechanisms of varying speed.

Lamp life can be extended to as much as 2500 bours by under-running, making use of a solid-state control that gives a continuously variable ligbt output down to 30 per cent. The lamps themselves are rated at 150 watts, 15 volts, are fitted with with integral dichroic mirrors, and cooled by silent-running ducted centrifugal blowers.

The two light-guide connectors on the unit front panel are standard ACMI female types with spring-loaded slide action. When not in use they are blanked off by automatic anti-dazzle sbutters. Total electrical consumption nf the unit is about 230 VA, from an input that may be 110 V 60 Hz or 230 V 50 Hz.

Measuring 225 mm by 215 mm by 145 mm (8.8 by 8.4 by 5.7 in), the fibre strobe cold-light unit weighs 4.4 kg (9.68 lb).

EFP at 25 West Park Road, Kew, Surrey TW9 4DB. 01-876 2204.

● SERVICES

Problems with plastics

MINOR MOULDING problems in plastics processing can often quickly be solved by using simple optical microscopy. But those most likely to need to use the technique usually bave neither the equipment nor the trained personnel.

Recognising that, the Science Research Council's Polymer Engineering Directorate is financing the first diagnostic microscopy and teaching service fnr the plastics and rubber industry, to be set up at the Institute of Polymer Technology, University of Technology, Loughborough.

The PED/SRC grant of £25,850 will be spread over four years on a decreasing scale after which the scheme is expected to become self-financing in the form of a consultancy.

Courses will play an important part in the service which will also help in identifying areas in development and production where microscopy can be used to improve product design, manufacturing techniques and quality control.

SRC, Polymer Engineering Directorate, PO Box 271, 3/5, Cbaring Cross Road, London WC2H 0HW. 01-930 9162.

● COMPONENTS

Withstands high power

CUSTOM-BUILT voltage natworks and dividers, that are capable of continually withstanding up to 30 kV, are offered by Welwyn Electric, the Northumberland based electronic component manufacturer.

The new components will be of interest to engineers involved in the design and manufacture of high voltage equipment, particularly very low inductance and pulse systems, precision high voltage dividers, accurate feedback controls, measurement systems and bleeder chains.

Networks are supplied on five standard substrate sizes ranging from 25 mm x 8.5 mm to 25 mm x 50 mm. Special size substrates can be made to order.

The resistance range available ia 100 ohms to 2 Gohms with a standard tolerance of — 5 per cent. Closer tolerances are available if reqnired.

Power rating is up to 4.5 watts, and stability typically 0.5 per cent after 1,000 hours use.

Advantages nf a high voltage network nver discrete components are reduced inventory, as several components are replaced by one; reduced assembly and inspection time; and a more consistant performance than can be achieved with discrate resistors, as dnplicate networks are identical in pattern, shape and electrical characteristics.

Welwyn Electric, Bedlington, Northumberland NE22 7AA. 0670 822181.

● MUNICIPAL ENGINEERING

Structures for streets

UNITS MADE of GRP (glass reinforced plastic) that can serve as kiosks, booths, shelters, etc., in car parks, at bus-stopa (or as fully enclosed structures where a dust-free atmospbere is required) have been develnped by Inwork Craft Products, 21 Faraday Road, Southfield Industrial Estate, Glenrothes, Fife (0592 759293).

Local authorities have utilised the modular system as bus shelters, etc., and the maker says that they are virtually vandal-proof and corrosion free.

Said to incorporate the latest resins and colourful pigments, the structures come in a range of textured finishes to blend in with or contrast with customer scenarios.

Each module promises to be produced under tight quality supervision with particular attention given to inner surface and edge finishing.

● By agreement between the Financial Times and the BBC, information from The Technical Page is available for use by the Corporation's External Services as source material for its overseas broadcasts.

● MATERIALS

Production of optical fibre

A NOTABLE first has been achieved by a GEC company which has made the first lengths of optical fibre produced commercially in the UK by the double crucible method.

The double crucible method of manufacture uses a crucible designed to proportion two types of glass at a pre-set core to cladding ratio. It is then covered nn-line by a protective, strengthening plastic coat.

This process was developed by the British Post Office Research Centre at Martlesbam Heath and the sole UK licence to produce was granted to London Electric Wire.

In 15 weeks from the date of the original agreement London Electric Wire reached the production stage. During this period the plant was designed, built and commissioned. It is installed in a specially constructed clean environment in order to guarantea purity levels —and thus the bighest possible technical standard.

Uses for this type of fibre are mainly in the Post Office network systems and the worldwide potential is enormous. Applications inclnde computer links, piped TV systems, the new System X telepbone exchanges, military cables and railway signal systems.

London Electric Wire, Church Road, Leyton, London, E10 7JH. 01-539 3636.

Keeps the draughts at bay

IMPROVED WEATHER strip for doors and windows bas been put on the market by 3M and will be available from Berkeley Invicta (UK), 304 Sangley Road, Catford, London SE6 (01-697 8333).

Known as Scotcb Weather Strip 2743 the material will, it is claimed, reduce air infiltration by over 70 per cent and noise levels by 7.5 dB. Tbis ½ inch wide polypropylene strip is scored down the centre so that on application it can be easily formed in to "V" section. Adhesion to wood or metal, even in cold weather is said to be very good by virtue of new 3M acrylate adhesive whicb is applied continuously at the factory rather than in interval-space tacks.

Adhesion strength is said to exceed 18 oz in 180 degree peel-back tests.

Other advantages claimed are good tear aod dent resisance, conformability, acoustic insulation and durability. Tbe makers say that test samples bave undergone 2.5m opening/closing cycles with no measurable change in performance.

3M United Kingdom is at P.O. Box 1, Bracknell, Berks RG12 1JU (0344 58280).

Strong lettered strapping

WELL KNOWN for its woven nametapes, J. and J. Casb has introduced a range of high strength lettered strapping. This is woven in nylon tyre cord, with polyester lettering, stripes, and logos, whicb are repeated along the length of the strap.

With a breaking strength of over half-a-ton, the straps have a very strong resistance to abrasion, and all colours are fast dyed. A range of nine colours is available where the lettering, etc, is concerned, while the body of the strap as such is dyed to meet particular requirements. Tbe maximum widtb available is 38 mm in infinite lengths. A variety of buckles, slide attacbments etc, are available.

Tbe strapping is so woven that the lettering will nnt catch or snag, and there is no "float" of loose yarn on the reverse of the strap.

It should appeal to tour operators needing constant identification of their customers' holiday impedimenta and it could be useful for carrying portable industrial equipment which needs to be beld securely and readily recognised.

J. and J. Cash is in Kingfield Road, Coventry CV1 4DU. (0203 555222.)

Increases resistance to frost

INCREASED workability and resistance to damage by frost and de-icing salts are among the advantages claimed for Conplast AE 21, a water-reducing air-entraining admixture for concrete now being marketed by Fosroc Construction Chemicals, Vimy Road, off Leighton Road, Leighton Buzzard, Beds LU7 7LF. (0525 373773).

The product is stated to be suitable for roadways, bridges, runways and any large concrete area where damage by frost is likely, or wbere poor aggregates or sand gradings bave to be used. It can also be used with air-entraioed structural concrete or extruded coocrete.

Described as a chloride-free, liquid admixture that is compatible with all types of Portland cement, Conplast AE 21 entrains a controlled volume of air into the mix while its plasticising action significantly reduces the free water content.

It acts on the interface between the cement/aggregate particles and the mixing water, producing microscopic air bubbles througbout the concrete.

Fosroc says that the improved workability increases compaction, while controlled entrainment increases resistance to frost damage and reduces the permeability of the hardened concrete considerably.

● COMPUTERS

Control of production

BASED UPON a design for use within a sister company involved in engineering production, a fully fledged microcomputer system for production management in the engineering industry is now to be offered by BMG Microsystems.

Part of the £4m turnover Blackman Martin Group, BMG Microsystems is making use of Intel eight bit microprocessors, Honeywell Bull peripherals and the CPM operating system from Digital Research of California now said to be in use in 200,000 installations world wide.

The company believes, bowever, that its high quality total system design and production control software will put it in a strong position at the upper end of this particular market. System price with bard disc is about £27,000 and the macbine is aimed at companies with up to 350 employees. It is emphasised that no specialist knowledge or staff are required and inclnded in the price will be 12 free weeks of support.

Prodnction scheduling and cost control are the two prime areas in which the machine provides solutions. Tbe former is designed for a multi-operation multi-work-centre environment. Machine times calculated at the estimating stage are kept within the computer for automatic preparation of daily macbine schedules. All jobs and processes, including planned down time and nperators' absences can be programmed. Management receives detailed reports on the utilisatioo of eacb work centre, material requirements and acbievable delivery dates, plus a daily wnrk schedule. The effect nf production macbine breakdown or personnel absence on the wbole program of work, on job progress, delivery dates, workshop loading and several other aspects will be sbown up by the computer. The work schedule is automatically adjusted but remains under direct management control.

The system also provides the kind of information needed for decisions on when to buy new equipment, wben tn subcontract work, and the effect of overtime working.

Current and future costs of materials, work centrea and overheads are accommodated by the costing segment of the software and these can be updated at any time. Outputs include detailed variances against the estimate and a forecast of the profitability of each order from customers.

The company is also offering separately the microcomputer plus its peripberals, with operating system, at a starting price of about £8,250.

More from the company at Micro House, Hawksworth, Swindon, Wiltshire SN2 1DZ (0793 37813).

Building and Civil Engineering

£16m paper mill in Tanzania

A PAPER and pulp mill complex in South West Tanzania is to be built by Mowlem under a £16.4m contract. The development, in the highlands at Mufindi, Iringa region, is for the National Development Corporation of Tanzania. It is financed by a consortium including the World Bank, KFW of Frankfurt, Sida of Stockholm, the Kuwait Fund, the OPEC Special Fund, the Commonwealth Development Corporation, the Nordic Investment Bank and the Tanzania Government.

Mowlem's first task on the 51.4 acre site, is to build an estate of 50 bouses which will be used by company staff carrying out the construction.

In addition to the mill house, there will he 24 ancillary buildings including offices, laboratories, field storage unit, maintenance abop, fire station, effluent treatment and water supply works.

Overall project management is by the National Development Corporation of Tanzania, which bas retained ASSI of Stockholm ss advisers; site project management will be P. R. Sandwell UK of London, with Jaaklo Poyry Engineering Company of Helsinki, as engineering consultants.

Big Punjab development project

SIR WILLIAM Halcrow and Partners working in collabora- with Sir Murdoch MacDonald and Partners has signed a contract with the Government of Punjab to provide full consultancy services for investigation, planning and implementation of the Kandi Watershed and Area Development Project (KWADP) finance for which the International Development Association is to provide a US$24m loan, matcbed by grants from the Government of Punjab.

Services to be provided cover the feasibility, planning and implementation of the KWADP, including technical organisation in all its managerial, financial, social and administrtive aspects provision of advice to and asistance witb in-service training to strengthen the Department's capacity to investigate, monitor, and evaluate works on small wstersheds of varying size, topography, hydrology and degree of vegetative cover of the type found in the area.

Work involved will be the first comprehensive attempt to tackle tbe problem of the flood damage and soil erosion brougbt sbout hy generations of unrestricted tree felling and overgrazing in the Himalayan submountainous zone, and forms part of tbe Government of Punjab's strategy to raise agricultural production in the Kandi tract, a 4,600 square km area whicb contains aome six per cent of the State's population.

Factory in Egypt

MEMBER OF the John Laing Group, Laing Projects BV, has received a £3.3m management fee cootract from Chloride Egypt to build a battery factory with offices and an amenity building at Imbaba, about 35 km from Cairo.

Factory will have a floor area of about 3,000 square metres and will be of structural steel frame construction with metal cladding to roof and walls.

The two storey office bullding (some 1,100 square matres) will have an in situ concrete frame with blockwork cladding. Single storey amenity building will be of similar construction.

Also included will be sewerage treatment and efflueot plant, a water tower, roads and bardstanding for vebicles.

Work begins on September I this year and is scheduled for completion within 14 months.

£10m awards to Bernard Sunley

THREE contracts worth about £10m bave been awarded to Bernard Sunley and Sons.

At Purley Way, Croydon, work bas started on the demolition of an office and foundry in readiness for the construction of a three-story factory, for Stewarts' Plastics. The building will bave a structural steel frame on piled foundations and be linked at higb level to some remaining buildings. The contract valued at about £1.6m is planned for completion in August 1981.

Architects are Grayston, Alan and Durtnall of Sevenoaks, Kent. Baker Wilkins and Smith are the quantity surveyors.

Work has also begun at Nene College, Northampton, on the construction of the Blackwood Hodge Management Centre for Northamptonshire County Council. This contract is valued af over £1m. Tba architect is J. D. M. Gammans.

The third job is at New Hibernia Wharf, London, SE1, where a £7.1m office and flat development overlooking the Thames is underway for Domeford. This complex will have seven storeys of offices and flats in a nine-storey section.

The building will be finisbed externally with brickwork and anodised glazed panels and curtain walling and the area around the building will ba extensively paved to allow access to the riverside and Southwark Cathedral. Completion is acheduled for the end of 1982.

Architects are Michael Twigg, Brown and Partners and Norvell and Partners are the quantity surveyors.

Sewage treatment works

WORK WORTH over £5m has been awarded to companies within the Norwest Holst group including a £3m design and construct contract for a major extenaion to the existing sewage treatment works at Keodal.

The new works, which incorporate part of the existing works sited alongside the River Keot, will include an inlet screw pumping station; acreen bouse, covered oxygen activated aludge tanks, final settling tanks and sludge storage tanks. This is the first time since reorganisation that the North West Water Authority has awarded a design and construct contract for a major sewage works extentions.

Robert McGregor (Norwest Holst company) has been awarded a £2.276m contract by the Severn-Trent Water Authority for building road diversions to by-pass the villagea of Carsington and Hognaston in Derbyshire, prior to the commencement of work on the proposed Carsington dam and reservolr.

Three contracts for Howard

WORK WILL start shortly on three contracts, totalling over £2m woo by John Haward and Co.

The largest contract, valoed at nearly £1.5m is at Blacksness Harbour, Scalloway, Shetland and involves the construction of a steel sheet piled finger jetty 240 metres long to provide an overall berthing length of 400 metres.

At Warrington, the company will construct two sludge tanks at Gateworth sewage works and a third at Eastford Road for the North West Water Authority (£270,000), while the third contract, valued at £285,000 is to provide a new customs and excisa pier at Gravesend, Kent for the Property Services Agency.

Home & overseas work for George Wimpey

WIDE RANGE of activities covered by George Wimpey group includes three orders won by its Caribbean office for schools, houses and blocks of flata in Trinidad, together worth over £12m.

Trinidad and Tobsgo Ministry of Education and Culture bas placed a £4.4m order for two schools of prefabricated design tn be built on reinforced concrete foundations at Claxton Bay and Moruga. For Craven Ramchatesingb, Wimpey is to design and build 68 houses in Freeport, complete with roads and sewers, under a £1.3m contract. Third order is valued at £6.6m and bas been placed by the National Housing Authority of the Government of Trinidad and Tobago. This calls for five four-storey apartment blocks to be built in Morvant by the end of 1981.

In the UK, the Middlesbrough office of Wimpey Construction has won a £6m contract from the Property Services Agency for the erection of a training camp for service personnel at Wathgill Camp, North Yorkshire. Project comprises barrack blocks, beadquarters buildings, stores, training and medical centre, social centre, senior and junior ranks messes, workshops, transport facilities and all associated builoings and services.

In Scotland, a contract worth £3.4m has been won by Wimpey Asphalt for the resurfacing of the RAF Machribanisb runway at Campeltown. Awarded by the Department of the Environment, PSA, this work comprises tbe resurfacing of the existing 3 050 metres long x 45 metres wide concrete runway with 100mm two-course Marsball Asphalt. Work involves making and laying 52,000 tonnes of Marsball base and regulating material and 19,000 tonnes of Marshall wearing course. Runway ends are to be broken out also, and resurfaced with 200mm thick concrete.

A £1.2m plus cootract from the Home Office for works at HM Prison, Liverpool, includes construction of a oew perimeter security wall in reinforced concrete with piled foundations. A third house aod flat modernisation contract with Kirkaldy District Couocil is valued at just over £600,000.

£2m sea defence work

TWO contracta for sea defence work bave been won by Mears Contractors wdrth a total of over £2m.

One is for the Southern Water Authority for work to be carried out in Sheerness, Kent, and, due to start in August, will entail the improvement of tidal sea defences. Called for are 700 linear metres of aheet pile toe wall, concrete bank facing and associated promenade slabwork and wave return walls.

Also included in the £1.1m contract is the improvement of a secondary defence which runs through the dockyard in a north-south direction from Garrison Point to Rats Bay.

The aecond contract is for tha Metropolitan Borough of Wirral and is a 15 month operation scbeduled for completion in October 1981.

Uoder this £1m contract, (Stage III of the Wallasey Embankment project), Mears is to carry out defence works for a distance of 150 metres. The contract also includes constructioo of an offsbore rubble mound breakwater consisting of 40,000 tonnes of natural rock laid on a base of 20,000 tonnes of smaller bed stone, with 500 tonnes of mastic-grouting.

City in the desert

TRENT CONCRETE bas won a £400,00 contract to supply its spec. list expertise to architects pla. ining a £1,000m city in the Egy. ian desert.

Tbe T. nth of Ramadan City, as it is already called by the Egyptians, will ba the oew bome of 500,000 people at preseot living in overcrowded Cairo It is due to be completed by tha end of this ceotury.

Trent Concrete engineers will be traioing their Egyptian counterparts in precast concrete construction techniques at their Nottingham offices and also at the site in the desert 30 miles to the north of Cairo.

Water study in Mauritius

OVE ARUP and Partners' Mauritius based practice, Sigma-Arup, has been appointed by the Central Water Authority of Mauritius as consulting engineers for the proposed Port Louis Domestic Water Supply Scheme.

This project includes two dams, the larger being situated in the Guibies Valley, a tunnel, a small bydro-electric station together with weirs and several kilometres of canals.

A feasibility study for the project is under way and work has also begun on alte Investigation.

Nearly £5m contract for Lesser

NEW UK headquarters for Heidelberg Graphic Equipment are to be built at Brentford, Middlesex, by Lesser Design and Build. Value of the contract is understood to be nearly £5m.

The 9130 square metre complex will be erected on a 3½ acre site on the south side of Brentford High Street. Preliminary site work has begun.

There is to be a mix of two- and four-storey buildings with a showroom fronting the High Street for displays of Heidelberg printing machines. About 2,500 square metres of office space is to be provided plus storage areas, workshops, conference rooms, catering facilities, and a plant and vehicle maintenance depot.

A reinforced coocrete frame will be used for the four-storey portion, with steel frames for the remaining structures. Cladding will be mainly of red facing brick, with coloured mortar and bloe pvc-coated profiled steel. Completion is dua in June 1982.

Buildings for port project

THE SUPPLY, and erection of 23 buildings for a ten-berth port in Um Qasr is to be undertaken under a sub-cootract awarded to Cleveland Bridge and Engineering Company by the State Constructional Contracting Company of Iraq.

Cleveland Bridge, a Trafalgar House company, will be fabricating over 10,000 tonnes of steelwork for the project in the UK and at its Jebel Ali works in the United Arab Emirates.

This will be a continuation of the port development work currently being carried out by the company at Khor Al Zubair in Iraq, where it has a cootract for the supply and erection of 12,000 tonnes of steelwork worth about U.S.$13m.

Bottling plant

AWARD BY Arthur Bell and Sons of a £650,000 contract for further extensions at its Dunfermline bottling plant has brought the Cubitts total workload on this site to over £2m.

Under the first phase, now nearing completion, Holland Hannan and Cubitts (Scotland) haa built additional bonded warehouse accommodation which, wben brought into use will release space for an additional bottling hall and vat room.

Blyth and Blyth Associates of Edinburgh are providing all professional services on this contract.

Monk tender accepted

TAYSIDE REGIONAL Council Water Services Department has acepted A. Monk and Co.'s £1.2m tender for the construction of a reservoir.

The project calls for 36,000 cubic metres reservoir in reinforced concrete. It will be part buried with a five and a half metra deep exacavation, have a concrete base, walls and covered top and be supported by 234 circular concrete columns.

Included in the contract are 1,300 metres of mains laying, and access road and landscaping.

هكذا من الأصل

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

A recipe to stop the cookie crumbling

Geoffrey Owen examines the survival strategy of Baker Perkins, the food-to-packaging group

MOST BRITISH engineering companies with a large export trade have been reporting poor results in recent months. They have ben hit by the combination of last year's engineering strikes, high interest rates and the soaring exchange rate. The deepening recession in the UK and in several important overseas markets has made short-term prospects look even bleaker.

The uncertain question—which must be worrying the Government as well as the City—is how far present difficulties threaten the long-term viability of the industry. Will permanent damage be caused even to those companies which are normally regarded as soundly managed and internationally competitive?

One such company is Baker Perkins, the Peterborough-based group which has annual sales of £100m and some 6,700 employees; it exports about 60 per cent of its UK production. After five years in which pre-tax profits rose every year from £2.67m to £9.86m, it has just reported a reduction to £6.46m in the year to March 30, 1980.

The management is responding to the recession in familiar ways—one small factory has been shut down, another is on a four-day week and manpower reductions are being sought — but so far there is no suggestion that the company has been thrown seriously off course. It is trying not to cut spending on product development; medium- and long-term objectives remain unchanged.

Change of gear

What makes Baker Perkins particularly interesting in this context is that a year ago the management decided on a change of gear. For the preceding four years effort had been concentrated on raising profitability, sorting out the consequences of an ill-judged diversification programme and re-establishing a solid basis for growth.

By the middle of last year the re-building process was largely complete. Franklin Braithwaite (now Sir Franklin), who was then group managing director, had done what he said he would do when the company was last discussed on this page on July 16, 1976. Return on capital employed in trading had risen steadily to reach 24.2 per cent in 1978-79; between 1970 and 1975 it had fluctuated between 6.5 and 10.8 per cent.

The time had come when the emphasis could be switched towards expansion. The operating companies, without relaxing financial disciplines, could be encouraged to look for growth in real terms, to spend more on product development and to consider acquisitions.

John Peake, Baker Perkins' managing director: "While the cold wind blows we will have to look harder at our priorities." He took over from Sir Franklin Braithwaite (right) in January

What had been achieved between 1975 and 1979 was partly a matter of loss elimination, partly an all-round improvement in efficiency. In printing machinery, for instance, which had been making substantial losses, Baker Perkins was trying to compete across too broad a front. It was spending a lot of money on product development and there were operating problems with machines already installed.

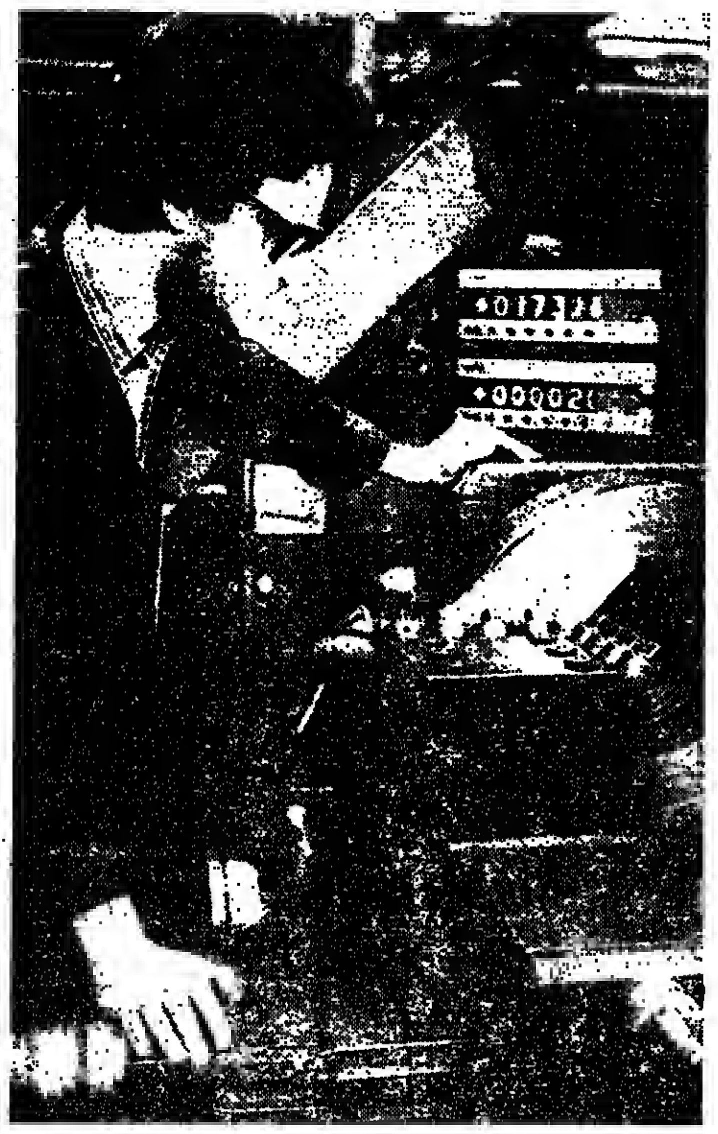
The management decided to concentrate on web offset presses for commercial colour printing. Although development costs of the new G16 press have been high, Baker Perkins is now competing effectively against much larger printing machinery companies in its chosen sector of the market. About 85 per cent of production is exported, mainly to the U.S. Although return on capital employed is lower than in other parts of the business, profits are moving in the right direction.

The old-established U.S. subsidiary, based in Saginaw, Michigan, and mainly concerned with bread-making and chemical machinery, was also going through a bad patch five years ago. Stocks were too high and too many contracts had been taken at fixed prices which were yielding little if any profit; the Canadian affiliate was losing money on its manufacturing operation.

John Peake, an engineer with more than 20 years' experience in Baker Perkins (including a spell running the Australian subsidiary) was sent out to the U.S. in 1975 to clean up the business. Overheads were cut back, stricter financial controls were imposed and, Peake says, "the bad stuff was got out of the system." From a loss in 1974-75 profits have risen each successive year and are now at satisfactory levels.

Another big contribution to the improved performance between 1975 and 1979 came from packaging machinery—the Rose Forgrove subsidiary—where profits moved from good to excellent. Exports went ahead strongly, especially in confectionery wrapping machinery where Rose Forgrove is the world leader. Internal efficiency was improved.

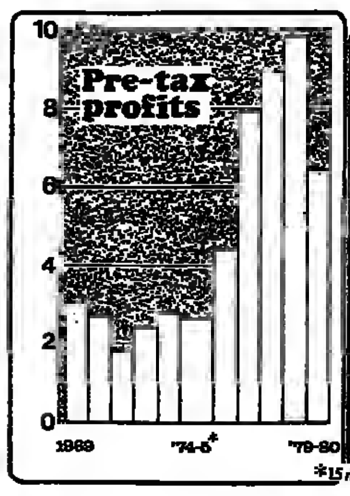
All this was very satisfactory as far as it went, but it was clear to Braithwaite and his colleagues that Baker Perkins could not rely indefinitely on "recovery situations" to maintain the momentum of rising profits. New sources of growth had to be found, partly from organic development and partly through acquisitions.

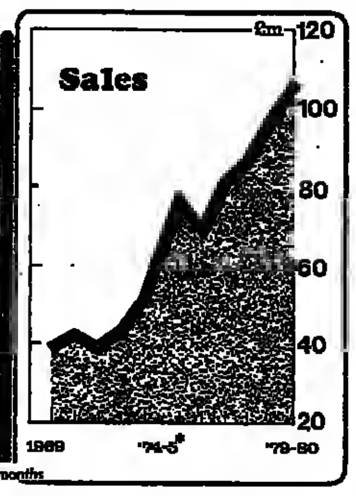


An operator using digital measuring equipment to prepare the housing for a shaft of a biscuit-making machine at Baker Perkins' Peterborough factory.

Spending on research and development (mainly product development) has been pushed up in real terms. In 1979-80 it amounted to £3.8m, representing 3.6 per cent of sales; a few years earlier the figure had been little more than 2 per cent of sales. In food much of the emphasis has been on understanding the processes more fully, learning how to control them more accurately and thus helping the customer improve the economics of his manufacturing system.

Inevitably the micro-processor is playing an increasing role. The first applications were in printing machinery, where the level of technical sophistication is generally higher than in food processing. (This is one of the reasons why printing is a useful business for Baker Perkins to be in.) For that application outside consultants were used, but recently an engineer from GEC-Marconi has been hired and has been developing new micro-processor-based packages for use in bread-making machinery.





*15 months

Improvements in conventional mechanical engineering are just as important. In biscuit-wrapping machinery, for instance, a Swiss competitor has made some embarrassing inroads into the U.K. market, mainly because Baker Perkins made some wrong technical decisions a few years ago. There is scope for improving market share through product development.

As for takeovers, four have been made in the past two years—two in France, one in the U.S. and a small one in New Zealand—and the effect has been to strengthen Baker Perkins' hold on world markets in its traditional lines.

It has always been a leading world supplier of bread-making machinery, but its interests on the Continent of Europe had been confined to a long-established 26 per cent stake in Werner and Pfleiderer KG of Stuttgart, a company about the same size as Baker Perkins and with some overlap in products. This is very much a trade investment and even if it were feasible for Baker Perkins to increase its shareholding—the company is a limited partnership—Werner and Pfleiderer has never been seen as an appropriate vehicle for expansion on the Continent.

Towards the end of last year Baker Perkins made an offer for the leading French company in bread-making machinery, Pavailler. After several anxious months of waiting for official approval, the deal went through in March of this year. Pavailler's main strength is in selling to family bakeries. With annual sales of around £20m, it is nearly as large as the U.S. subsidiary and fills an important gap in the group's worldwide network. In 1978 a smaller French company, Malaxeurs Guittard, making mixing machines for the food and chemical industries, had been bought for £1m.

In contrast to the diversification of the late 1950s and early 1960s, the recent purchases are designed to broaden Baker Perkins' position in markets where it is already well established. For example, the U.S. company, a major supplier of bread-making machinery, was less strong in another of Baker Perkins' lines, biscuit machinery: hence the purchase of Werner Lebara of Grand Rapids, Michigan, which specialises in this field.

Another factor was the trend in markets outside the U.S. towards U.S.-style "cookies" rather than traditional British-type biscuits: Werner Lebara had the relevant technology and experience.

Outside food Baker Perkins is looking for ways of extending its line of chemical machinery. It has tended to go for niches in the market—such as compounding machines for polypropylene and high-strength engineering plastics—where the number of customers is relatively small and where the company, operating in this case from a U.S. manufacturing base, can provide a worldwide service. It wants to build on its strength in mixing machines to serve a wider range of process industries, some of which have better growth prospects than food.

What difference has the recession and the drop in profits made to these plans? Clearly Baker Perkins has been affected by the fall in demand, especially for packaging machinery. The confectionery industry, one of the main customers, has been going through a lean period and cutting back on new investment. In general the increases in volume through which the company hoped to reap the benefits of its recent investment in new plant and new products will be more difficult to achieve and take longer to come through.

This makes improvements in productivity all the more essential; manpower reductions, instead of being phased over two or three years, have to be accelerated. Spending on product development is being maintained, but as John Peake, who took over from Braithwaite as group managing director in January, puts it, "while the cold wind blows we will have to look harder at our priorities."

Fortunately Baker Perkins has a healthy balance sheet. The market leadership which it enjoys in several of its lines is an added strength. There is the further point that nearly half its manufacturing capacity is now in well-established factories outside the UK.

But, despite the unexpectedly sudden change in the terms of trade, Baker Perkins is by no means pessimistic about exporting from the UK. Much of the international competition comes from Germany, and sterling has appreciated less against the D-Mark than against most other currencies.

Stronger position

Exporting from the UK is, and will remain, a very important part of Baker Perkins' business. The company has the financial and commercial strength to weather the present storm. If in the course of weathering it productivity can be improved, and investment in product development maintained, it could emerge in a stronger competitive position.

It is too early to despair about the future of the British engineering industry.

COMPANY NOTICES

TOKYU DEPARTMENT STORE CO., LTD.

NOTICE TO EDR HOLDERS

THE CHASE MANHATTAN BANK, N.A., London, as Depositary.

July, 1980.

N.Y. AMEV

U.S.$40,000,000 8% Debentures Due 1978-1987

AMSTERDAMSCH TRUSTEE'S KANTOOR B.V.

July 2nd, 1980.

OMRON TATEISI ELECTRONICS CO.

Advice has been received from Tokyo that payment of a Cash dividend of Yen 4.50 per share has been made for the six months

NOTICE OF RESIGNATION OF TRUSTEE AND OF APPOINTMENT OF SUCCESSOR TRUSTEE

To the Holders of CHESEBROUGH-POND'S INTERNATIONAL CAPITAL CORPORATION

4¾% Guaranteed (Subordinated) Debentures Due 1983

(guaranteed by Chesebrough-Pond's Inc.)

Morgan Guaranty Trust Company of New York

Chesebrough-Pond's International Capital Corporation

Dated: July 7, 1980

LEGAL NOTICE

PREVENTION OF FRAUD (INVESTMENT) ACT, 1958

DIAMONDS FOR INVESTMENT

NOTICE OF RESIGNATION OF TRUSTEE AND OF APPOINTMENT OF SUCCESSOR TRUSTEE

To the Holders of CHESEBROUGH-POND'S INTERNATIONAL CAPITAL CORPORATION

6¼% Guaranteed (Subordinated) Debentures Due 1984

(guaranteed by Chesebrough-Pond's Inc.)

Morgan Guaranty Trust Company of New York

Chesebrough-Pond's International Capital Corporation

Dated: July 7, 1980

MURATA MANUFACTURING COMPANY LIMITED (CDRs)

AMSTERDAM DEPOSITARY COMPANY N.V.

Amsterdam, 30th June, 1980.

NACIONAL FINANCIERA, S.A.

US$100,000,000

FLOATING RATE NOTES 1970/1983

BANQUE INTERNATIONALE A LUXEMBOURG

Luxembourg, July 7th, 1980.

LOMBARD

Don't be afraid of T and T

BY SAMUEL BRITTAN

Who is afraid of Taylor and Threadgold? Answer: British Treasury Ministers. The two gentlemen in question are Bank of England economists who wrote Bank of England Discussion Paper No. 6, showing that on a proper inflation-adjusted deficit the famous Public Sector Borrowing Requirement (PSBR) hardly exists.

The concept they use is the General Government Borrowing Requirement, but the principle is much the same. The calculations, brought up to date in the June issue of the Bank of England Bulletin, show that the real borrowing requirement was actually negative in the last couple of years and only £1bn to £2bn in 1975-76 when the international alarm was being raised.

Treasury Ministers and officials have always ducked when confronted with these calculations. But it is important that people should be discouraged from using them to suggest a massive Budget giveaway and the abandonment of PSBR objectives.

Paradox

The detail for particular years should make one extremely suspicious. The Taylor-Threadgold method is to take the nominal borrowing requirement and add back the "notional gain on monetary liabilities," that is the losses suffered by holders of Government debt as a result of the fall in the real value of their securities. The paradoxical result is that for any given nominal value of Government borrowing, the offsetting adjustment is greater the higher the rate of inflation.

The largest adjustment so far recorded—9 per cent of the national income—is for the horrendous year of 1975 when the inflation rate averaged nearly 25 per cent. Such calculations would no doubt show that the German Government in the hyper-inflation of the 1920s, which was literally printing money by the trillion to meet its bills, was actually in surplus.

In fact it may have been. For what the calculations show is how very difficult it is for a Government to run a genuine deficit. If it does not meet its bills by ordinary taxes it does so by an inflation tax on the monetary and fixed interest assets of its citizens. But the moral is that what is good inflation accounting is not necessarily a good guide to fiscal and monetary policy.

Borrowing

How then should Treasury Ministers who believe in honest accounting, run their fiscal affairs? The correct Budget deficit is that which can be financed without inflationary borrowing from the banks and without inordinately high interest rates (the latter being partly a political judgment). In the short term the only way to find out is to "suck it and see."

But there is also another approach. Let us assume that the present medium term plan to 1983-84 is succeeded by another with the goal not of low inflation but complete price stability by say the late 1980s. At the end of the second period the inflationary adjustment for government gains on its monetary liabilities would be zero. Thus a long-term plan for price stability would have as its terminal point precisely the same expenditure and tax implications as one calculated on Taylor and Threadgold lines.

As there is in any case a strong argument for averaging the gearing adjustment in inflation accounting over a period of years, it is quite sensible to [illegible] target balance of the [illegible] some years ahead (with the correct end-period inflation adjustment if one does not take price stability literally) and not worry about the accounting treatment of monetary liabilities in the years in between.

[illegible] and Threadgold apart, [illegible] case for allowing [illegible] in the PSBR which are the automatic effects of recession to take place and act as a built-in stabiliser. This is quite compatible with monetary control. It would mean allowing increases in the PSBR due to recession-induced revenue shortfalls or higher social security outgoings. But it is not [illegible] for an overrun of [illegible] local or central Government spending. The case for cyclically adjusted budgetary targets is, however, best argued on its own merits and not as an aspect of inflation accounting.

A law of the sea runs aground

THE WEEK IN THE COURTS

BY JUSTINIAN

A MARITIME lien is a privileged claim upon a ship in respect of service done to it, to be carried into effect by legal process. It is one of the prime principles of the law of the sea and is very far-reaching in its effects.

A decision of the Judicial Committee of the Privy Council recently in an appeal from Singapore, *Bankers Trust International Ltd. v. Todd Shipyards Corporation*, however, has stripped the maritime lien of much of its effectiveness by deciding that in modern law it is no more than a procedural remedy; it is not a valuable right of property.

As the two dissenters, Lords Salmon and Scarman, observe: "So far from being far-reaching, its validity and effect will be subject to the domestic law of the forum in which it is sought to be enforced." They went on to say that, "If this be the law, we have travelled a great distance from the concept of a universal law of the sea. We have returned to the legal climate which in England prior to 1840 nourished the common law courts by excluding the Admiralty jurisdiction from 'the body of the county,' i.e., the internal waters, ports, and dockyards of the country. In the climate of a dominating domestic law the concept and principles of the law of the sea wilt and die."

The facts of the case were short and simple. An English company, Bankers Trust International, was the first mortgagee of a British ship The Halcyon Isle, and was registered as such on May 8, 1974. In March 1974 American ship-repairers, Todd Shipyards Corporation, did repairs and supplied materials to the ship while it was in port at New York. The vessel reached Singapore waters, where it was later arrested, in the summer of that year. The ship-repairers had issued a writ against the ship; so had the mortgagees. After arrest, the ship was sold by order of the Singapore Court.

In due course the ship-repairers obtained a judgment for $237,011 and the mortgagees a judgment for $14,419,000. The proceeds of the sale of the ship amounted to only $1,380,000. If the mortgagees were right in rejecting the ship-repairers' maritime lien as conferring any priority, they would take all; if the ship-repairers were right in claiming the full benefit of their lien, they would be paid in full, leaving the mortgagees with what remained after the ship-repairer had been paid. The court distributing the limited fund was faced with the problem of classifying foreign claims arising under differing foreign systems of law in order to assign each of them to the appropriate class in the order of priorities under the law of the distributing court.

There are basically two ways in which the distributing court can approach the problem. The first is to classify the foreign claims by reference to events upon which the claim is founded, giving to it the priority to which it would be entitled under the law of the distributing court as if those events had occurred within the territory of the distributing court. That approach has the merit of simplicity, and the majority of the Law Lords thought that it was right in principle.

The distributing court, when dealing with a limited fund, is not concerned with enforcing against the debtor himself the individual creditors' rights against him. It is concerned with administering justice even-handedly between competing creditors whose respective claims will have arisen under a whole variety of different, and often conflicting systems of national law. Rights of priority over other creditors of the defaulting party to a contract are not rights of the parties to the contract against one another; when it comes to judicial distribution of a fund insufficient to satisfy all the creditors in full. They are rights as between one party to the contract against strangers to that contract, the *other* creditors. Such other creditors will have done nothing to arouse any *legitimate* expectations in the party to the contract as to the priority to which the latter will be entitled in the distribution of the fund.

Every such creditor must know that any rights to priority he *may* have over other classes of creditors in the distribution of a limited fund resulting from an action against a ship will be compelled to yield to the law of any foreign court in which the action may be brought. Universality of the law of the sea cannot in the real world be complete.

In the present case the ship-repairers knew perfectly well that, as soon as The Halcyon Isle vacated its berth that she had been occupying in the busy repair yard at New York, they were relinquishing their possessory lien for the unpaid work they had done on the ship. Likewise they would have known that if and when the ship entered a port in any of the major trading countries of the world while their bill remained unpaid, they could have her arrested and in this way obtain security on the ship for their claim, subject of course to being postponed to any other claimants who might be entitled to priority as between various kinds of maritime claims under the local law.

That approach, simple and morally sustainable as it might be, did not commend itself to Lords Salmon and Scarman.

They took the view that the ship-repairers would never have allowed the ship to leave their repair yards in New York without payment unless they were assured that the law conferred on them the right of property by way of a maritime lien. The importance attached by the ship-repairers to this was shown by the terms of their contract. It included a term: "Nothing herein shall be deemed to constitute a waiver of our maritime lien." Since many countries give priority to maritime liens over mortgages this fact refuted the suggestion made by the majority of the Law Lords that the ship-repairers must have been aware that their lien might be disregarded by other laws which might apply as and when a limited fund had to be distributed among creditors.

Furthermore the repairs enhanced the value of the ship and therefore added to the value of the mortgagee's security.

The law relating to the repair of ships in England under contracts governed by English law differs from that in the U.S. The repairers of a ship in England do not acquire any maritime lien over a ship which they have repaired; accordingly they rarely allow a ship to leave their yard until they are paid or have arranged other security for the repairs. In England, *therefore*, the court decides the priority of the rights that exist against a ship. For example rights conferred by a maritime lien take precedence over the rights of a mortgagee. The question in the *Bankers Trust* case was: does English law (or Singapore law, which is the same) recognise the maritime lien created by the law of the U.S. where no such lien exists under its own law?

The majority relied upon the International Convention of 1952 on the Arrest of Sea-Going Ships as indicating a characterisation of the maritime lien as procedural or remedial only, and governed by the law of the country distributing the limited funds. But that Convention has not been signed by Singapore or ratified by the UK, and so could not strictly be relied upon as affecting the result of the case.

The nations of the world have so far failed to introduce a uniform code governing maritime liens. The acute division of judicial opinion in the Privy Council should spur the maritime nations to set about providing the uniform code to resolve the conflict of the legal systems.

Cole's three Edinburgh hopes

RACING

BY DOMINIC WIGAN

PAUL COLE, whose five-strong team at Bath on Saturday surprisingly failed to land a prize for the Lambourne trainer, should fare better at the other end of the country today.

Cole has sent three horses Chanson du Nuit, King Hustler, and Eight Roses—to Edinburgh and each could win. His best chance and, the soundest prospect of the day is Eight Roses, which runs in the Pentland Maiden Stakes.

Another Cole representative, who seems sure to be staying on better than most here, is King Hustler, who goes for the New Hailes Handicap. At Windsor last time out Adrian Clegg's smart three-year-old was fast overhauling Peppery in the closing stages of the Oakley Green Handicap.

King Hustler finished two lengths adrift of the winner at the line as he attempted to concede 7lbs. He will be ideally suited by the additional furlong of today's race.

Although he has been on the go for a long while now, Chanson du Nuit retains his form in exemplary style and was gaining a well deserved success last time out when beating Royal Blood at Bath.

He looks certain to follow up in the Glenfuir Stakes which he can win at the expense of Sailor's Prayer.

That popular old campaigner, Le Garcon D'or, is remembered with the five furlong handicap which carries his name.

Here the likely winner is Irish Solitaire, a consistent sort who has travelled from Denys Smyth's Bishop Auckland stable. With R. Sidebottom able to claim his 5lbs allowance Denys Smyth's course and distance *winner will be carrying* only 7 stone 12 lbs. He looks weighted to win.

EDINBURGH
2.00—Aegean Seaman
2.30—Chanson du Nuit**
3.00—Irish Solitaire
3.30—Cerna
4.00—Palfrey's Surprise
4.30—King Hustler*
5.00—Eight Roses***

TV/Radio

[illegible] indicates programme in black and white

BBC 1

6.40-7.55 am Open University (Ultra high frequency only). 1.30 pm Heads and Tails. 1.45 News. 2.35 Your Songs of Praise Choice. 4.13 Regional News for England (except London). 4.15 Play School (as BBC 2 11.00 am). 4.40 The Space Sentinels. 5.00 John Craven's Newsround. 5.05 Blue Peter Flies the World. 5.35 The Wombles.
5.40 News.
5.55 Nationwide (London and South-East only).
6.20 Nationwide.
6.55 Ask the Family.
7.20 The Dukes of Hazzard.
8.10 Panorama: American Congressman John Anderson's contention for the 1980 Presidential Election.
9.00 News.
9.25 The Monday Film: "Chato's Land," starring Charles Bronson and Jack Palance.
11.00 The Editors.
11.45 News Headlines
11.47 Bellamy's Europe.
12.12 am Weather / Regional News.

All Regions as BBC 1 except as follows:—

BBC Cymru/Wales—1.30-1.45 pm Pila Pala. 5.55-6.20 Wales Today. 6.55-7.20 Heddiw. 12.12 am News and Weather for Wales.

Scotland—9.55 am Noah and Nelly. 10.00 Jackanory. 10.15 The All New Popeye Show. 10.35-10.55 Take Hart. 1.25-1.30 pm The Scottish News. 5.55-6.20 Reporting Scotland. 12.12 am News and Weather for Scotland.

Northern Ireland—4.13-4.15 pm Northern Ireland News. 5.55-6.20 Scene Around Six. 12.12 am News and Weather for Northern Ireland.

England—5.55-6.20 pm Look East (Norwich); Look North (Leeds, Newcastle); Look North-West (Manchester); Midlands Today (Birmingham); Points West (Bristol); South Today (Southampton); Spotlight South-West (Plymouth).

BBC 2

6.40-7.55 am Open University.
11.00 Play School Story.
5.15 pm Open University.
6.55 Dallas.
7.45 Mid-evening News.
8.00 One Hundred Great Paintings.
8.10 The Waltons.
9.00 The Innes Book of Records.
9.25 Brass Tacks.
10.10 Best of Brass.
10.45 Newsnight.

LONDON

9.30 am Check It Out. 10.00 Wild, Wild World of Animals. 10.25 Poetry of Landscape. 10.40 The Village. 11.05 Little House on the Prairie. 11.55 Dick Tracy Cartoon. 12.00 Chorlton and the Wheelies. 12.10 pm Rainbow. 12.30 Doctor! 1.00 News, plus FT Index. 1.20 Thames News. 1.30 Crown Court. 2.00 Against the Wind. 2.30 Monday Matinee: "Woman's World." 4.15 Clapperboard. 4.45 The Latchkey Children. 5.15 Mork and Mindy.
5.45 News.
6.00 Thames News.
6.35 Crossroads.
7.00 The Krypton Factor.
7.30 Coronation Street.
8.00 Can We Get On Now, Please?
8.30 World in Action.
9.00 The Sandbaggers.
10.00 News.
10.30 Police Story.
12.15 am Close: Personal choice with Leo Aylen.

All IBA Regions as London except at the following times:—

ATV

10.00 am The Wild, Wild World of Animals. 10.20 Sesame Street. 11.20 The Entertainers. 11.45 Larry the Lamb in Toytown. 1.20 pm ATV Newsdesk. 2.00 About Britain. 2.30 The Best of Sellers: "The Naked Truth" starring Peter Sellers. 5.15 Take My Wife. 8.00 ATV Today. 10.30 Left, Right and Centre. 11.00 ATV Newsdesk. 11.05 Luke's Kingdom. 12.05 am Something Different.

ANGLIA

10.00 am Chopper Squad. 10.50 Child Life in Other Lands. 11.20 World Worth Keeping. 11.45 Cartoon Time. 1.20 pm Anglia News. 2.00 About Britain. †2.30 Monday Film Matinee: "In a Lonely Place" starring Humphrey Bogart and Gloria Grahame. 5.15 University Challenge. 6.00 About Anglia. 6.30 Survival. 10.30 The Brian Connell Interviews. 11.00 Monday Late Film: "Hell On Frisco Bay" starring Alan Ladd. 12.45 am Reflection.

BORDER

10.00 am The Best of Weir. 10.25 How the West Was Won. 1.20 pm Border News. 2.00 About Britain. 2.30 Monday Matinee: "Catch Me A Spy" starring Kirk Douglas. 5.15 Take My Wife. 6.00 Lookaround Monday. 6.15 The Electric Theatre Show. 6.45 Photography. 7.00 The Krypton Factor. 10.30 Monday Film: "Moments" starring Keith Michell. 12.25 am Border News Summary.

CHANNEL

1.20 pm Channel Lunchtime News, What's On Where and weather. †2.30 The Monday Matinee: "My Six Convicts." 5.15 University Challenge. 6.00 Channel News. 6.10 Cities. 10.28 Channel Late News. 10.35 Luke's Kingdom. 11.35 Celebrity Concert (Connie Stevens). 12.30 am News and weather in French.

GRAMPIAN

8.25 am First Thing. 10.00 The Best of Weir. 10.25 How the West Was Won. 1.20 pm North News. 2.30 The Monday Special: "The Pre-Raphaelite Revolt/Dancers." 3.30 Survival. 4.00 Casper the Friendly Ghost. 5.15 University Challenge. 6.00 North Tonight and area weather forecast. 8.30 Out of Town. 10.30 Reflections. 10.35 The Monday Movie: "The Sergeant" starring Rod Steiger. 12.30 am North Headlines.

GRANADA

10.00 am The Beatles. 10.15 Wildlife in Crisis. 10.35 The Woody Woodpecker Show. 11.00 Sesame Street. 1.20 pm Granada Reports. 2.00 About Britain. †2.30 Monday Matinee: John Gregson in "The Brave Don't Cry." 5.15 Granada Reports. 6.00 Granada Reports. 6.30 This Is Your Right. 10.30 The Pool of Life. 11.30 The New Avengers.

HTV

10.00 am The Human Face of China. 10.25 The Lost Islands. 10.50 Sesame Street. 11.50 Larry the Lamb in Toytown. 1.20 pm Report West Headlines. 2.00 About Britain. †2.30 The Monday Matinee: "Easy Money." 5.15 Batman. 6.00 Report West. 10.35 The Monday Film: "The Proud and the Damned."

HTV Cymru/Wales—As HTV West/HTV General Service except: 12.00-12.10 pm Trehetiau. 1.20 Penawdau Newyddion y Dydd. 1.25-1.30 Report Wales Headlines. 2.00-2.30 Hamdden. 4.45-5.15 Sêr. 6.00 Y Dydd. 6.25-7.00 Report Wales. 8.30-9.00 Yr Wythnos.

SCOTTISH

10.00 am The Beachcombers. 10.25 How the West Was Won. 1.20 pm News and road and weather. 2.00 About Britain. 2.30 Monday Matinee: "A Woman For Charlie" starring Dan Blocker. 5.15 Sam. 6.00 Scotland Today News and High Summer Extra. 8.40 Crimedesk. 10.30 Sounds Gaelic. 11.05 Late Call. 11.10 Kez.

SOUTHERN

10.00 am Focus on Wildlife. 10.25 Little House on the Prairie. 11.20 History of the Motor Car. 11.45 Larry the Lamb. 1.20 pm Southern News. 2.00 Houseparty. 2.25 "The Mask of Alexander Cross." 3.45 About Britain. 5.15 Survival. 6.00 Day by Day (including Southsport). 10.35 First Edition. 11.20 S.W.A.T.

TYNE TEES

9.20 am The Good Word followed by North East News. 9.30 The Master-builders. 9.55 The New Ed Allen Show. 10.20 The White Stone. 10.45 While Dad Was in a Concentration Camp. 11.10 Canada. 1.20 pm North East News and Lookaround. 2.00 About Britain. †2.30 Monday Matinee: "Nor The Moon By Night" starring Belinda Lee and Michael Craig. 5.15 Father, Dear Father. 6.00 North East News. 6.02 Play It Again. 6.25 Northern Life. 10.30 Northern Report. 11.00 Monday Film: "In Tandem." 12.30 am Epilogue.

ULSTER

10.00 am Best of Weir. 10.30 The Lost Islands. 11.00 Sesame Street. 1.20 pm Lunchtime. 2.30 Monday Matinee: "The Brave Don't Cry," starring John Gregson. 4.13 Ulster Television News. 5.15 Bailey's Bird. 6.00 Ulster Television News. 6.15 Portrait of the Artist. 6.30 Happy Days. 10.29 Ulster Weather. 10.30 Superstar Profile (Gregory Peck). 11.00 Kez. 12.00 Bedtime.

WESTWARD

10.00 am Best of Weir. †10.25 Feature Film: "Earth v The Flying Saucers." 11.40 Sword of Peace—RAF. 1.20 pm Westward News Headlines. 2.00 About Britain. †2.30 The Monday Matinee: "My Six Convicts." 4.12 Gus Honeybun's Birthdays. 5.15 University Challenge. 6.00 Westward Diary. 10.32 Westward Late News. 10.35 Luke's Kingdom. 11.35 Celebrity Concert (Connie Stevens). 12.30 am Faith For Life. 12.35 West Country Weather and Shipping Forecast.

YORKSHIRE

10.00 am Wildlife—Untamed Frontier. 10.25 Black Beauty. 11.10 Young Ramsay. 1.20 pm Calendar News. 2.00 About Britain. †2.30 Monday Matinee: "The Passionate Friends," starring Ann Todd, Claude Rains and Trevor Howard. 5.15 University Challenge. 6.00 Calendar (Emley Moor and Belmont editions). 6.35 Happy Days. 10.30 Calendar Carousel. 11.15 Paris. 12.15 am George Hamilton IV.

Radio Wavelengths

1: 1053kHz/285m, 1089kHz/275m
2: 693kHz/433m, 909kHz/330m & 88-91vhf stereo
3: 1215kHz/247m & 90-92.5vhf stereo
4: 200kHz/1500m & 92.95vhf
BBC Radio London: 1458kHz, 206m & 94.9vhf
Capital Radio: 1548kHz, 194m & 95.8vhf
London Broadcasting: 1151kHz, 261m & 97.3vhf

RADIO 1

(S) Stereophonic broadcast

5.00 am As Radio 2. 7.00 Dave Lee Travis. 9.00 Simon Bates. 11.31 Paul Burnett. 2.00 pm Andy Peebles. 4.31 Peter Powell. 7.00 Stayin' Alive. 8.00 Simon Cole. 9.50 Newsbeat. 10.00 John Peel (S). 12.00-5.00 am As Radio 2.

RADIO 2

5.00 am News Summary. 5.03 Steve Jones (S). 7.32 Terry Wogan (S). 10.03 Jimmy Young (S). 12.03 pm David Hamilton (S). 2.03 Ed Stewart's Request Show (S). 4.03 Much More Music (S). 6.03 John Dunn (S). 8.02 Folk On 2 (S). 9.02 Humphrey Lyttelton with the Best of Jazz on records (S). 9.55 Sports Desk. 10.02 Pop Score. 10.30 Star Sound. 11.02 Brian Matthew with Round Midnight, including 12.00 News. 2.02-5.00 am You and the Night and the Music (S).

RADIO 3

6.55 am Weather. 7.00 News. 7.05 Overture (S). 8.00 News. 8.05 Morning Concert (S). 9.00 News. 9.05 This Week's Composer (S). 10.00 Songs from Finland (S). 10.40 Baroque Chamber Music (S). 11.30 Music for Gentle Percussion by Marek Kopelent (S). 11.45 BBC Scottish Symphony Orchestra (S). 1.00 pm News. 1.05 Brahms: 2-Piano Recital (S). 2.10 Matinee Musicale (S). 3.10 New Records (S). 4.55 News. 5.00 Mainly for Pleasure (S) (‡ and mono only from 6.20). 7.00 Magnificent Performances. 7.30 College Concert, part 1 (S). 8.05 Interval Reading. 8.10 Concert, part 2. 8.45 Promenades. 9.15 Violin and Piano (S). 10.00 Cincinnatus (story by Gabriele D'Annunzio). 10.30 Jazz in Britain (S). 11.00 News. 11.05-11.15 Campra (S).

VHF only — Open University — 6.00-6.40 am and 6.20-8.40 pm and for Scottish students only: 12.00-1.00 am.

RADIO 4

6.00 am News Briefing. 6.10 Farming Week. 6.25 Shipping forecast. 6.30 Today, including 6.45 Prayer for the Day. 7.00, 8.00 Today's News. 7.30, 8.30 News headlines. 7.45 Thought for the Day. 8.35 The Week on 4. 8.43 Miles Kington with the BBC Sound Archives. 9.00 News. 9.05 Start the Week with Melvyn Bragg. 10.00 News. 10.02 From Our Own Correspondent. 10.30 Daily Service (S). 10.45 Story Time. 11.00 News. 11.05 The Company's Blade (S). 11.50 Weigh-in. 12.00 News. 12.02 pm You and Yours. 12.27 Brain of Britain 1980 (S). 12.55 Weather: programme news. 1.00 The World At One. 1.40 The Archers. 1.55 Shipping forecast. 2.00 News. 2.02 Woman's Hour. 3.00 News. 3.02 Listen With Mother. 3.15 Afternoon Theatre (S). 4.45 Short Story. 5.00 PM, News magazine. 5.50 Shipping forecast. 5.55 Weather; programme news. 6.00 News. 6.30 Home Again (S). 7.00 News. 7.05 The Archers. 7.20 Science Now. 7.45 The Monday Play: "A Father and His Fate," from the novel by Ivy Compton-Burnett. 9.15 Crawdle and Cream. 9.30 Kaleidoscope. 9.59 Weather. 10.00 The World Tonight. 10.30 The News Quiz (S). 11.00 A Book At Bedtime. 11.15 The Financial World Tonight. 11.30 Today in Parliament. 12.00 News.

BBC Radio London

6.00 am As Radio 2. 6.30 Rush Hour. 10.03 The Robbie Vincent Telephone Programme. 1.03 pm London Live. 4.30 London News Desk. 6.35 Look, Stop, Listen. 7.03 Black Londoners. 8.00 Question Time from the House of Commons. 9.00-5.00 am Join Radio 2.

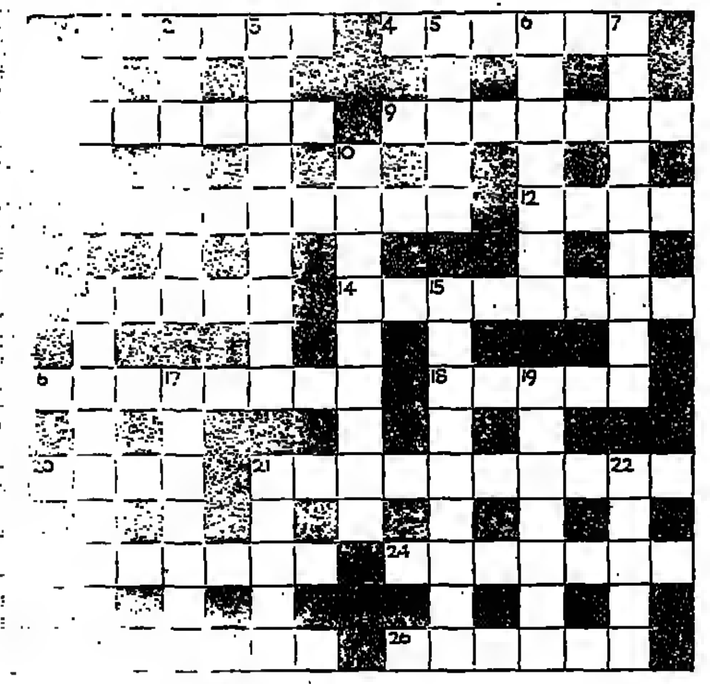
London Broadcasting

5.00 am AM—Bob Holness and Alan King. 10.00 Brian Hayes with guest Lance Secretan, Managing Director of Manpower Limited and Sir Angus Wilson. 12.00 LBC Reports. 8.00 pm After Eight Special—Hugh Williams investigates the decline of the in-shore fishing industry. 9.00 Nightline with guests Lord Howie of Troon and Councillor Philip Hodson. 12.00 LBC Reports Midnight. 1.00 am Night Extra. 5.00 Morning Music.

Capital Radio

6.00 am Mike Smith's Breakfast Show (S). 9.00 Michael Aspel (S). 12.00 Mike Allen (S). 1.00 pm London Today First Report (S). 1.10 Mike Allen (continued). 3.00 Roger Scott (S). 7.00 London Today (S). 7.30 Adrian Love's Open Line (S). 9.00 Alan "Fluff" Freeman (S). 10.50 "The Hound of the Baskervilles"—Sir Arthur Conan Doyle (S). 11.00 Tony Myatt's Late Show (S). 2.00 am Peter Young's Night Flight (S).

F.T. CROSSWORD PUZZLE No. 4,315



ACROSS
1 Spotted, so I acted first (6)
4 Stop to receive direction in well known London thoroughfare (6)
8 Lose one's footing through loose shoe (7)
9 Place in office this month at start of engagement (7)
11 Jester with a bad trick involving crockery (3-7)
12 Eccentric piece of pasteboard (4)
13 Mean to cancel (5)
14 Church assembly from Lancashire town taking first-class return (8)
16 Stop the French ship—it's no race (8)
18 Politician in drink makes plenty (5)
20 Lots of fish right inside tin (4)
21 Preserves food in chimney (5-5)
23 Excessive zeal in great love essay (7)
24 Spirit pertaining to us in prison (7)
25 Not liable without them briefly taking exercises (6)
26 Sportsmen under bar and anxious to get hail? (6)

DOWN
1 Silver removed from salvage for a remedy (5)
2 I'm to stand on top of rostrum for taskmaster (7)
3 River-fish learner starts eating is odious (9)
5 Time to be strained (5)
6 Object that could make it clear (7)
7 Decide to put an end to (9)
10 Detour that should be amusing (9)
13 Gloomy god in the east (9)
15 Escort fellow with a word of hesitation over one (9)
17 Chap with fault in garment needs access to sewer (7)
19 Part of theatre and article used on stage provides underground support (3-4)
21 Remove footballer's clothing? (5)
22 Soldier turning up in vehicle for a smoke (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

SOLUTION TO PUZZLE No. 4,314

هكذا من الأصل

Drury Lane

Sweeney Todd by B. A. YOUNG

Stephen Sondheim is a capable musician one of whose greatest gifts is the inspiration of confidence in his admirers. *Pacific Overtures* won him a Tony and two Drama Desk Awards, and made what was then a record loss for its backers. *Sweeney Todd* has just closed in New York without making a profit. The Drury Lane production is virtually the Broadway production on a reduced scale. There is much about it that I admire, but I would not myself have invested in it.

The truth is that Mr Sondheim consistently aims above his target. The tale of the Demon Barber of Fleet Street has always been good entertainment, and Christopher Bond's version of it, which is the basis of Hugh Wheeler's book, is a good one with a touch of social criticism in it. No reason why a melodrama shouldn't have melodramatic music to go with it; but the music for *Sweeney Todd* doesn't fit. Mr Sondheim belongs to what one might call the "wrong note" school, and *Side by Side by Sondheim* demonstrated that there's nothing wrong with that. But the *Sweeney Todd* music sounds as if it were meant for an opera, with its duets and trios and *idées fixes*; and in the first place it really isn't quite good enough for that, in the second place half the words get lost, and in the third place it protracts the story until the pace is unacceptably slow.

Not until the end, when climax follows climax, does the tale begin to grip, when Sweeney almost kills his long-lost daughter by mistake, when the judge who originally sentenced him to transportation (no need to go into the details) finally finds himself in the fatal barber's chair, when the mad beggar-woman turns out to be Sweeney's former wife, when Mrs. Lovett the pie-maker is thrust live into her own oven, and the boy Tobias who can expose the whole scheme comes up from the sewers and slits Sweeney's throat with his own razor. Marvellous stuff, this; but we've had to wait too long, and to sit through music that only touches the popular mark when it slips into sentimental vulgarity (as in "Not while I'm around").

Of course we can always divert ourselves with the scenery, for Hal Prince is the director, and as we can see in *Evita* he has a magician's touch in converting thin entertainment into wonderment. Eugene Lee's peripatetic scenery, with its floating walkways, its oddly relevant machinery in the wings (that blows a screaming whistle to mark crises), its series of trucks hauled on by the poor of Victorian London to set the scenes in the big empty space centre-stage, is fascinating.

The playing is good too. Denis Quilley is a properly sinister figure as the eponymous barber who conveys Sweeney's increasing devotion to killing for its own sake. ("I think I miss you less and less with every day," he sings of one of the characters for whom he first went into the vicious trade). He sings admirably, and it is not his fault if his words have sometimes to fight unbeatable opposition from the composer or the pit band. As for Sheila Hancock as his pie-cooking confederate, she is as funny as you could possibly hope for, and curiously lovable as well. Romance is offered by two pretty young people, Andrew C. Wadsworth as Anthony the sailor and Mandy More as the girl Johanna, and Michael Staniforth provides a sense of adventure as Tobias. There is no dancing, save on the occasion when Sweeney dances Mrs. Lovett into the furnace; the chorus, drilled by Larry Fuller, is for pictorial purposes only.

Covent Garden

Giselle by CLEMENT CRISP

After five years out of the repertory, *Giselle* has returned to the Opera House in a production supervised by Norman Morrice. What we see is, in effect, the old staging of the 1960s amid a dreadful refurbishing of James Bailey's pleasing 1946 designs. The Royal Ballet has danced *Giselle* since 1934, and the passage of nearly half a century should have brought a deepening of understanding, a purifying and sharpening of effects, so that this dear survivor might still be recognised as a masterpiece of Romantic dance. What is so fine in comparable stagings — the Royal Danes' *La Sylphide*, the Kirov *Giselle* — is a grand simplicity of means, all excess trimmed, the drama and dance clear, cogent, beautiful. With the Kirov *Giselle*, especially, there is also a sense that every artist on stage respects the ballet, and is able to work in common stylistic harmony to do honour to it.

None of this is evident in the new Royal production. It starts with the disadvantage of ferociously cute designs for Act I—a Walt Disney fantasy landscape before which peasants in pastel shades (the girls in flouncing, billowing skirts; the boys in sashes and too much embroidery) pose themselves in operetta fashion. Enter a hunting party in dress apparently inspired by the engravings of the first *Giselle* from *Les Beautés de l'Opéra*, but improbably rainbow-hued, and wildly over-upholstered. From these disadvantage points they posture feebly.

The attitudes implicit in these debilitating designs are those of the production in this act. The drama seems unreal as peasants and courtiers smirk and primp. There is nothing urgent, nothing convincing, save the directness and power of Stephen Jefferies as an outstanding Hilarion. Marguerite Porter is a milky, soft-grained Giselle, making a début under difficult circumstances; David Wall, that notable Albrecht, fights manfully against the surrounding flabbiness to give some sinew to his characterisation.

It is significant that the mad-scene reaches its high-point when Giselle is dead and Jefferies and Wall, dance actors of the first calibre, can confront each other and show how artists may surmount any obstacle when their emotions are allowed full rein.

Act 2 is much superior in decoration: the setting is broodingly like the forest scene described by Gautier. Hilarion's entry, pursued by Wilis is excellent; his death, driven into the wings, is ineffectual—unless one supposes his fate is to see the first act designs again. There are pre-Romantic groupings for the Wilis, atmospheric lighting, and a fine sun-rise, and I was happy to see stage traps used for Giselle's materialisation and final descent back into the earth. David Wall soars ardently as Albrecht; Pippa Wylde is a promising Myrtha; Marguerite Porter seems as yet a tremulous Wili. But there is little dramatic force to the production: Albrecht does not take refuge close against the cross on Giselle's tomb; we are not helped to understand the great crisis for Giselle, who must dance both to save and destroy the man she has loved. The production, in sum, is vapid in manner as in appearance.

*

The appearance of Natalya Makarova and Anthony Dowell on Saturday night cut through the indecisions of the staging like a laser beam through fudge. Here was the dramatic purpose and emotional drive the presentation needs. Makarova, in a role which is sublimely hers, offers standards of artistry which should be those of the entire ballet: an organic, broad-spanning concept of the action; a dance style which re-establishes the poetic truth of the Romantic manner for our time.

How potent the way in which she prepares the development of the drama. When Berthe recounts the Wili legend, Makarova shows us Giselle suddenly isolated. She foresees her fate, knows in that instant that Loys will betray her, when she turns and clasps his hand for reassurance, she has only briefly allayed her fears. Thus the Wili Giselle already exists in the peasant girl's imagination, and in ours.

In matter of dancing, Makarova's lightness, the gentle clarity and floating amplitude of her manner, the ravishingly nuanced dynamics which hold and stretch a phrase on the air, are uniquely beautiful. The peasant girl seems to drift into the dance from an inner dream-world; the Wili has a solemn, contemplative grace which enables the role, and the production.

Dowell, passionate in feeling, vivid in gesture, bold in dance, is an ideal partner, so that the couple's interpretation of the second act seems the manifestation of a single artistic impulse.

Elizabeth Hall

Dorati's Missa Brevis

As a well-timed appendix to Antal Dorati's current Brahms cycle in the Festival Hall, Saturday night's concert by the Collegium Musicum of London took the opportunity of reminding us that the conductor is also a composer. The first British performance of Dorati's *Missa Brevis* formed the centrepiece of an enterprising programme conducted by Lazlo Heltay. Flanking it were Kodaly's *Missa Brevis* and a considerable rarity, Carlos Chavez's *Toccata for percussion*, a substantial three-movement piece written in 1942.

Dorati's mass was written shortly after the end of the Second World War. In a memoir reprinted in the programme booklet, Dorati recounts how he showed the work to Kodaly at their first meeting after the war, and how the elder composer pronounced it "Quite Byzantine." But Kodaly must also have been flattered by the style of its choral writing, which echoes his own; Dorati's confident use of the choir, most memorably in the unaccompanied sections, suggests a highly experienced hand. What appeared at first hearing a possible miscalculation was the use of percussion (six players) as the only accompaniment.

The percussion is used economically; only untuned instruments are included, though high, medium and low cymbals and gongs create decorative patterns and the *Agnus Dei* is framed by a short paragraph for the percussion alone. But when isolated instruments are used to punctuate the choral writing—cymbals in the *Gloria*, for example—the effect seems empty and unnecessary. The mass contains many beautiful moments, not least when modal lines suddenly deepen into clear diatonic harmony; without accompanying instruments of any kind the total impression might have been cleaner and less cluttered.

ANDREW CLEMENTS

Felicity Lott, Donald Gramm and Rachel Yakar

Glyndebourne

Der Rosenkavalier

by RONALD CRICHTON

Glyndebourne's first *Rosenkavalier* 21 years ago belonged to an age now over. Conductor Ludwig, designer Messel and, more recently, producer Ebert are all gone. Saturday brought a new production, sponsored by Imperial Tobacco. Bernard Haitink is now the conductor, John Cox the producer. The veteran Erté from Paris is the new designer. Their contributions were received with deserved enthusiasm, but since the visual aspect is (for this opera) unusual enough to draw special attention, one aspect at least of the musical performance shall be described first.

Haitink and the London Philharmonic succeeded beyond expectation in adjusting Strauss's orchestral exuberance to the Glyndebourne orchestra pit and auditorium. A high proportion of Hofmannsthal's words came over, with minimal loss to musical energy. Both instrumental texture and the rhythms were marvellously alive, the wind inevitably predominating but with more sheen on the string tone than one always hears in this house. There was much revealing detail (in the accompaniment to the Marschallin's "Die Zeit, die ist ein sonderbar Ding," for instance) and more than once a tartness fated to be smoothed out in sumptuously saturated, "big" performances.

Cox and Erté have moved the period forward about a century from the librettist's "early years of the reign of Maria Theresa" nearer to the time of *Nutcracker* and *La Boutique Fantasque*—crinolines, ugly corkscrew ringlets and dashing Hussar uniforms. Erté is a contemporary of our gifted but sadly short-lived Claud Lovat Fraser (designer of the Playfair *Beggar's Opera*) and like him prefers clearly-defined areas of bright, singing colours. The results are un-Teutonic enough to send a current of shock through that broad middle band of Central Europe where colours get muddied. The charms of these sets and costumes are not conventionally Viennese.

Erté's long experience has been mainly in the field of light entertainment, where effects must be made quickly and where scenes of Straussian length are unlikely. In this *Rosenkavalier* any danger that we might, for example, have a surfeit of the Marschallin's salmon-pink bedroom is circumvented by a swift, baroque-style transformation into a Wedgwood-blue boudoir. Ochs's costume in this act is a coup de théâtre on its own. The hues of the princely palace (but was the Marschallin the kind of woman who would have bothered much about interior decoration?) are appropriately outdone by the nouveau-riche Faninal's scarlet and black. Like them or not, Erté's designs come as a salutary slap in the face to the dirty mess all around us in today's theatre. No young designer, however different his or her aim, could fail to learn something from this super-professional touch.

Against this background Cox brings out the essentially intimate domestic comedy at the heart of Strauss and Hofmannsthal's generous canvas. The narrative line is uncluttered: the opera has never seemed shorter. Scenes often (and deliberately) portrayed as shambles are handled here with discreet economy—the final humiliation of Ochs being one of them). The Ochs of Donald Gramm, as it happens, is perhaps the most original character-portrayal of the evening, a man still young, ruddy with drink and open-air life but not gone far to seed, selfish and crafty but superficially pleasant enough almost to get by. Mr. Gramm's singing and speech inflections beautifully match his appearance.

The Marschallin of Rachel Yakar (a memorable Elvira in Peter Hall's 1977 *Don Giovanni*) is equally unlike the stereotype. No pseudo-Lehmann airs and graces, but a young woman who knows and speaks her mind, a Mediterranean grandee's wife, more Eugénie than Victoria in her regally-worn Winterhalter gown for the last act. Much of the role lies in a not entirely comfortable register, but the phrases make musical sense and the words, authentically Viennese or not, are most firmly pronounced. The same can not, alas, be said for the Sophie. The Hungarian Krisztina Laki voices her soaring lines with smoothness and accuracy, but what she is singing about neither lips nor blank features betray.

Felicity Lott's Octavian won the audience from the first warm-hearted utterance. Lanky, impulsive, the only natural aristocrat on the stage, and on the first night the only principal with an unfettered (but always fitting) mobility of facial expression. What is more, Miss Lott was singing with a new fullness and freedom. Derek Hammond-Stroud was a fussy Drosselmeyer of a Faninal, Rae Woodland a very positive duenna. The remaining small parts were soundly, not outstandingly, filled. Some of them, like Annina and Valzacchi, were overdressed. Elizabeth Harwood and Artur Korn take over the Marschallin and Ochs for six of the later performances. Stephen Barlow conducts two of these.

Royal Academy

Cushion Concerts by RICHARD JOSEPH

Concerts during the Royal Academy Summer Exhibition are not a new idea—the Philomusica used to present a regular series there until a few years ago—but the Cushion Concerts presented by Youth and Music with W. H. Smith's support have the merit of wide ranging, worthy programmes and low prices. Thursday night's event was a piano recital by Michel Beroff, ending suitably with Mussorgsky's *Pictures at an Exhibition*; the Choir of King's College, Cambridge, and The Academy of Ancient Music appear on subsequent Thursdays.

Beroff is no longer the neat, diligent pianist that picked up prizes and recording contracts while still a teenager a dozen years ago. His range of sound is greater, he takes a few well-judged risks and he brings a greater imaginative response to his material. Beethoven's Op. 13 Sonata (the Pathetique) was played for clarity—no easy task in the Academy's boomy salons—but also for poetry. The most interesting phrases in the performance were characterised by subito piano articulation which drew the dramatic progress of the Sonata in a new, different direction each time.

This slightly wayward approach was better suited to Schumann's C major Fantasia. The rambling first movement found its many points of rest naturally, without being forcefully subdued; in the slow finale Beroff sustained a steady, calm tempo without losing the music's thread, even if Schumann's transcendent coda was not fully realised.

Faster passages of the middle movement showed some lack of concentration, with consequently flawed execution, and this tendency reappeared at some of the tougher corners of Mussorgsky's *Pictures*. By way of contrast, Beroff here offered bigger, more boldly drawn playing, which seemed to fight shy only of the more literal and pictorial aspects of the composer's invention.

Christ Church, Spitalfields

Lucio Silla

by MAX LOPPERT

Advance publicity for the Spitalfields Festival promised this as the first complete performance of Mozart's *opera seria* in this country in modern times. What we had on Thursday evening was a distinguished account of a score a good deal less than whole. By my reckoning hardly an aria was presented without internal snipping, sometimes quite extensive (the disappearance of yardage of *recitativo secco* proved less troublesome); and withal, a concert that began at 8 finished at 11.15. Better to have removed whole several of the less immediately remarkable arias and to have kept the remainder intact; better also to have begun earlier.

Lucio Silla, written when Mozart was 16—it was his last opera for Italy—is a grand, copious score, splendidly wrought. Each time I hear it (a well-cast BASF recording has been available for several years now) I find that the portion thereof that sounds mature, dramatically alive and "Mozartian" seems to have enlarged and that the merely proficient portion — "merely" for the teenage Mozart being understood to read "astoundingly" for anyone else—seems to have shrunk. All the accompanied recitatives strike fire; all the arias for the *primo uomo*, Cecilius and most, if not all, of those for the *prima donna*, Junia, grapple music to a characterisation dimly rendered in Gamerra's libretto. Mozart's inexperience we measure only because *Idomeneo* lurks in our mind's ear and sometimes we wait in vain for a similar succinctness of gesture, a cropping for dramatic ends of an aria's leisurely course. But in a concert-hall performance who would complain when limpid vocal music, sometimes elaborately ornate, comes round for full repetition?

Four high voices, of great address and fearsome range, are demanded: the four of Thursday's concert were excellent in contrast, delightful in combination, skilful in overcoming hair-raising tests of florid writing. Cecilius, in 1772 a soprano castrato part, found in Felicity Palmer a superbly eloquent exponent—fiery, keenly rhythmic, passionate and dignified in every phrase. Junia was Yvonne Keony, very fleet and pretty of tone though a touch small in vocal scale for the tragic pathos implicit in the music. The exquisitely pure-toned Patrizia Kwella (Celia) must now expunge from her singing its Stich-Randall-type flutings and cooings. Kathleen Livingstone as Cinna was a last-minute replacement for whom no apology was needed.

The relative insignificance of the tenor title role, which Mozart reduced at a late stage to accommodate an inefficient interpreter, tempted Philip Langridge to work too hard—the danger point of expostulatory inflection was several times passed. Not only the reverberant church acoustics but also the hands of the clock seemed to be influencing some of Richard Hickox's more hurtling tempos. His air of enthusiasm for the work proved infectious though, and the City of London Sinfonia and Richard Hickox Singers supported him with alert playing and singing, as carefully focused as this glorious building would allow.

*

A brief word for Alfred Brendel's Festival Hall recital on Friday, given in aid of St. Peter's Research Trust. In Haydn (the C minor Sonata, H.XIV 20) and Beethoven (Op. 31 no. 2) the pianist was heard at his peerless best—a classical artist by whom form, diction, colouring, and dramatic gesture are rendered lucid in exposition and inextricable in combination. The whole tone of Brendel's performance was strangely personal: the light, dry, luminously singing quality of his touch reminded one of singers like Panzéra or Husch, artists at once self-effacing and unrepeatably original. But then, in Schubert's B flat Sonata, D.960, self-consciousness crept in to modify the impression. Much of the music seemed to be sounded in a demonstration of Schubert's greatness. The result, still inimitably beautiful, lacked an essential measure of lyrical simplicity.

Samuel Barber

by ANDREW CLEMENTS

This year at Spitalfields contemporary music focuses on Samuel Barber, in a survey of instrumental and vocal works to honour his 70th birthday. The main celebration was Friday evening's concert, given by the London Sinfonietta with the soprano Vivien Townley. The composer had planned to attend, but was too ill to make the journey from the United States.

The programme was well judged to encapsulate Barber's achievement. It covered the first 30 years of his composing career, from the Serenade for string quartet op. 1, which betrays the undigested influence of Strauss and Reger, to the elegant and understated *Summer Music* for wind quintet of 1956. Success came early to Barber; the freshness of the setting of Matthew Arnold's *Dover Beach* and of the string quartet op. II (the performance here providing a welcome opportunity to appreciate the Adagio in its original context, though the reprise of the first movement as a finale lacks the courage of its convictions) leads to an unforced lyricism that later he was only to recapture rarely.

In a handful of works—the quartet and *Dover Beach*, as well as the remarkable evocation of an American childhood *Knoxville, Summer of 1915*, played at Christ Church in its version for soprano with piano instead of the vividly imaginative chamber orchestral accompaniment, and the violin concerto, which the organisers could profitably have included somewhere in the festival—Barber established his own brand of "neo-romanticism" that managed to avoid almost all kinds of expressive chromaticism. When his music did become more chromatic in the 1950s, it lost its personality. By concentrating on the earlier music, the Spitalfields Festival gave us the most valuable portion of his output.

It goes almost without mentioning that performances by the Sinfonietta players were uniformly excellent. Their quartet of strings generally favours a lean sound, to which the marvellous acoustic of the church lent an appropriate warmth; the long-limbed oboe solos in *Summer Music* were very beautifully played by Gareth Hulse. The only disappointment of the evening was Miss Townley's singing; much of it was extravagantly dramatic and unfocussed, and quite inappropriate to the gentle contours of Barber's vocal lines. It made *Knoxville* in particular a considerable test of endurance for the listener.

Norman McDowell

The death occurred at the week-end of the dancer and designer Norman McDowell. Born in Belfast in 1931, Norman McDowell trained at the Sadler's Wells School and with Vera Volkova. He worked as a dancer with many companies, including Ballet Rambert and the Original Ballet Russe, and created the leading role in Jack Carter's *Witch Boy*. As a designer he provided decoration for more than 40 ballets throughout the world; as a director he had headed London Dance Theatre, which gave exceptional performances during the mid 1960s.

Everything Norman McDowell did was infused with his love of the theatre and a sure taste for decorative elegance and fantasy. He gave much, and generously, to British ballet.

CC.

CRICKET TREVOR BAILEY

Absent Sussex fans miss good day

THE MEETING of neighbours and old rivals Sussex and Hampshire this weekend can hardly be termed a major cricketing occasion.

Both have yet to win a championship match this summer and are 16th and 17th in the table.

This was reflected by the small attendance of about 1,700, including members, on a fine Saturday at Hove.

Those Sussex fans who stayed away missed one of their club's good days. There was a fine century from Imran and good innings, of different character, from Wells, Phillipson and Roux, plus hostile bowling in the final stage.

Hampshire's lean spell was predictable and inevitable. Last season they were among the weaker counties and still recovering from the departure of Richards, Roberts, Gilliatt and Sainsbury. Now they are without the services of their best batsman, Greenwich, and their best bowler, Marshall.

The club has signed on Smith, a promising South African, and the Australian seamer, Graf, but they cannot be expected to cover two world-class cricketers.

Hampshire are short of class batting. Pocock is an inexperienced captain, which showed on Saturday. Their attack was insipid and their outfielding looked ordinary. They must hope some of the young players will take the opportunity to establish themselves.

Smith appears likely to do well in domestic cricket, while Tremlett and Nicholas are promising batsmen, although they failed to survive a torrid burst of fast bowling in the closing stages. There are growing accounts about the wicket-keeping of Jim Parks' son for

Sussex finished fourth last year and no-one expected them to be languishing at the foot of the championship table in July, unable to make much impression in the Sunday league, and the Gillette Cup providing their last hope of securing an honour.

Getting rid of the talented and exciting Miandad, who would surely have provided runs and entertainment on a large scale for at least a decade, was a mistake.

But they acquired Le Roux, a genuine fast bowler and a dangerous striker of the ball. On paper, they looked stronger than most of their rivals.

What has gone wrong? One main reason is injuries. Against Hampshire, they were without Wessels, Graves, Long and Parker. Barclay was missing throughout the monsoons of June, when his offbreaks, apart from his batting, might have brought them the odd victory.

Long term, these injuries could prove a bonus, because they brought in an exceptional young cricketer, Wells. If he continues to strike the ball as he did against Hampshire, he has come to stay, especially as he is also a useful third, or fourth seamer.

Barclay captained Sussex on Saturday and will presumably take over when Long retires. In the next few seasons, the team under his command should have a successful run.

But the county must appreciate that to win first-class matches, as distinct from limited-overs games, the opposition has to be removed twice.

The chance of achieving this will improve if they employ Imran and Le Roux as a double spearhead. It is hard to understand why they have seldom operated together this season.

Sussex have also been having financial problems, which they hope to overcome by increasing revenue from such activities as a new lottery, and sponsorship. They will also need to prune the size of their playing staff.

The match provided another example of the weakness of the 100-over limit on the first innings as a preparation for test cricket. At tea, Sussex were 307 for three off 88 overs. Instead of having to bowl out the opposition—when bowling becomes hard work — Hampshire, with the aid of far-flung Sunday afternoon fields, settled —not very efficiently—on containment.

This meant the batsmen had to resort to improvisation, fast running and agricultural slogs rather than batsmanship. It cost the talented Wells what should have been his first first-class century.

TENNIS BY JOHN BARRETT

The Bjorn Borg legend grows

THE LEGEND grows. At 24, Bjorn Borg, Sweden's sporting superstar, added a fifth consecutive Wimbledon singles title to his already bulging trophy bag on Saturday. It was a dramatic, at times heroic, final; against the left-handed American John McEnroe. Borg won 1—6, 7—5, 6—3, 6—7, 8—6 after three hours and 53 minutes of fierce, furious tennis.

It was the classic confrontation; world number one against world number two; defending champion against most-talented challenger; best-serving volleyer versus best exponent of service return and top-spin pass; top European versus American champion; the most explosively volatile player against the coolest.

I saw Borg win their last match—a spellbinding 6—7, 6—3, 7—6 victory in New York, in the Masters semi-final last January. In seven matches since 1978, Borg has won four and McEnroe three. I knew that given the occasion and the setting to fit their talents, these two were capable of producing a match to dream about.

They moved inexorably towards one another from the top and bottom of the draw through 11 slithering days of damp courts and leaden skies. Borg was without his customary scare, but McEnroe was within a few points of defeat in round two against the unknown Australian Terry Rocavert on noisy Court Three. The stage was being set for a perfect setting in the final.

Even the gods sensed the importance of the occasion. It was a perfect summer's day, and the vociferous fans warmed the atmosphere of an expectant Centre Court that was playing faster.

Borg was rocked by the violence of McEnroe's early onslaught, and lost the first set 1—6 in 27 minutes. He was unsure whether to rely on his usual back court game or to volley more, as he had in earlier rounds.

He survived three break points in the ninth game of the second set after exactly an hour. Moments later he won it 7—5 when he forced the American to volley into the net.

"The second set was very important," Borg said later. "If I had lost that set, it would have been very difficult to stop him."

The nine-game third set saw Borg serving better and at last beginning to time his returns off the fierce McEnroe service. When he broke the American to lead 5—4 in the fourth set, Borg seemed poised on the brink of immortality—the fifth title within his grasp.

But McEnroe saved the two set points—the second with a top-spin forehand drive-volley—and broke back with a daring cross court backhand pass. It signalled the strength of his resistance.

The absorbing 34-point tie-break which followed confirmed it. Borg reached championship point five times more. Six times McEnroe held set point. Each man answered these threats with such brilliance, such courageous, daring winners, that the tension became unbearable. On McEnroe's seventh chance Borg snatched at a volley and put it into the net.

"It was very, very disappointing to lose that tie-break," he said. "I kept thinking of all those match points at the start of the third set. I thought maybe I shall lose the match."

But the concern was not apparent as he retained a slender lead throughout the fifth set. In his seven service games which left him 7—6 ahead, he lost only three points.

Seven times he held points to break the McEnroe serve, four in the second game and three in the fifth. Each time the American recovered from 0—40. Clearly McEnroe was feeling the strain—partly no doubt because of his gruelling semi-final the day before against Jimmy Connors, followed by a losing doubles semi-final, on a day when Borg rested.

Suddenly McEnroe was 15—40 on his serve, an eighth championship point against him. As he raced forward on tiring legs, Borg struck a perfect double-handed backhand pass across him. McEnroe lunged and missed, and Borg sank to his knees in ecstasy and relief.

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When cash limits pinch

IF GEC or Plessey were to announce tomorrow that they were to invest £100m a year in new plant for the assembly of telephone exchanges, tha Government would presumably welcome this as an instance of the industrial regeneration going on below the facada of Britain's reeession. But if the Post Office were to buy the output of GEC's new factories in order to accelerate its own re-equipmeot programme the Covernment's response would be different. There might be a political crisis, calls for the Post Offica chairman's resignatioo or accusations of an economic *U-turn*.

It sbould be easy for Government Ministers, with their strong awareness of the distinction betwean marketed and unmarketed productioo, to see that profitable Industrial investment, whether it is undertaken by GEC, ICI, the Post Office or the Electricity Couccil, contributes to Britain's productive capacity. Investment should be one of the principal economic goals of Government policy. Yet it bas become increasingly clear from receot statements by Post Office end British Rail executives tbat in their view the Governmeot's puhlic spending policies could endanger important and commercially desirehle investment projects in the public sector. This would have repercussions not only on service levels and prices, hut also on parts of private industry which are customers and suppliers to State corporations.

Ambivalence

Within the Government itself there is a good deal of ambivalence about the links betweeo nationalised industry investment and public spending. Mlnlsters bave referred to the desirability of "taking a nationalised Industry's wbole operation out of the Governmeot's balance sheet" and to "the absurdity of getting investment programmes muddled up with the level of the rate support grant." But at tha same time, the Government bas made a huge reduction in oationalised industry borrowing, a central *pillar* of its medium term spending plans, and hence of its whole economic strategy.

This quandary makes a reconsideratioo of the treatment of nationalised industries in the natiooal accounts, and of the financial limits imposed oo them by Governmeot policy, worthwbile. On one band, as many industrialists now recognise, cuts in public speoding wbich are achieved by reducing nationalised industries' investment or raising their charges often do little or nothing to release resources for the "productive" parts of the economy. Worse, if public corporations are forced to delay investment or generate excessive surpluses to compensate for overspending in other parts of the public sector, the productive sector of the economy suffers directly in a way that is concealed by the puhlic spending *totals*.

If, on the other band, the nationalised industries fail to produce the £2.7bn financial turnaround that is demanded by the Government's spending plans—and almost without exception the industries' managers are sceptical ahout the possibility of meeting their targets—there will be a loss of confidence in the control of public spending, with adverse effects on the Government's financial strategy.

Rational

There are two major difficulties in formulating a more rational policy on nationalised iodustry financing. First, while it may be desirable to give the industries more scope to increase their iovestment in profitable projects, it is obviously oecessary to prevent them from borrowing merely to finance losses, inefficiency or excessive wages. Second, since their borrowings are guaranteed by the Government and since they cannot issue equity, it is impossible for them to raise capital in strict competition with private sector businesses. Tbey are not, after all, subject to the discipline of possible bankruptcy.

However, neither of these problems is necessarily insurmountable. There are alternatives to financing the wbole of the industries' investments through fixed-interest borrowing on the gilt-edged market, as British Gas and Britisb Rail have demonstrated with their proposals for a Nortb Sea pipeline and a Channel Tunnel.

Tbe most important difficulties about segregating geouine investment from operating subsidies could be resolved if the Government distinguisbed clearly between "lame ducks," such as Britisb Steel, and the successful Industries wbich, over a period of years, meet their financial targets. Nothing could fit more naturally with the Government's general outlook than to reward success with greater commercial freedom. The trick will be to find a mecbanism that would achieve this without abandoning the desirable disciplines imposed by the present *short-term* cash limits.

The next team in Brussels

IN PRACTICE, it is only once every four years that EEC Governments appoint a oew President of the European Commission. This time, after considcrable debate, thcy have finally settled on M. Gaston Tborn of Luxembourg.

He is a good choice. What the Governments have failed to do is to use the opportunity of the changeover to take stock of the geoeral way in whicb the Commission works and consider proposals for reform. It would have been a particularly good moment to do so, given that Creek eotry in 1981 will coincide with the installation of the new Commission in Brussels, raising the number of its memhers from an already excessive 13 to 14.

Another reason for looking at the metter now is that one of the most common proposals for reform concerns the way in which Commissioners are selected. If M. Thorn is to be given greater freedom to choose his own team then his predecessors bave enjoyed, then be must aoon be told so. Of course, Governments want to keep control over the Commission's composition hy putting forward their own nominees. But if they want an executive that runs efficiently (and perhaps they sometimes don't) it would make sense to give the President a greater say in putting together a group of people that can work together with some coherence.

Predecessors

It is perhaps too early to assess whet influence M. Thorn will have in the choice of bis colleegues. It is not yet clear whether he intends to carry on as Luxembourg Foreign Minister and thus, by e quirk of fate, Presideot of the Community's most important institotion, the Council of Ministers—during the *six months before* be assumes his new functioo. The institutional confnsion that this would create was one reaaon for France'a besitation in agreeing to his appointment. It would be better if be were now to step down as Foreign Minister and concentrate on assembling as strong a team for tba Commission as the member Governments will allow.

However strong his team, M Thorn will be bard put to restore the Commission's authority to anything resembling that which it enjoyed in the Community's heady early deys. If the power belance *has* tilted consistently towards the Council of Ministers in the last 15 years, it is not totally the Commission's fault. Covernments have moved into new areas of policy co-operation beyond those specified io the Rome Treety, in which the Commission's role was mora clearly defined, and the oationalism of France and Britain has militated against the central institutions.

Vital role

The Commission itself, however, is not without blame. Its members have allowed themselves to an increasing degree to become representatives of their own national Covernments and interests rather than the defenders of the "European" interest as the "founding fathers" intended. Rather than trying to lead Covernments, the Commission all too often acts as a forum for pre-negotiations between competing national interests. When it takes an independent stand, as on farm prices, it climbs down only too readily when it runs into opposition.

If, howevar, the Community is to function properly, the Commission has a vital role to play as a policy initiator and a mediator in disputes. It abould be streamlined through a reduction in tha number of Commissioners to a maximum of one per country, particularly as Spanish and Portuguese entry lies ahead. There are already too many Commissioners for the jobs available, and an effective Commission will be even more *important* once the *Council* of Ministers grows from nine to 12 member Governments. The paradox is that Coverrments want e Commission thet is both efficient at carrying out executive tasks and inefficieot as a political operator. But they can afford to taka the risk of allowing M. Thorn to choose a good team.

هكذا من الأصل

Gold suppliers get wise to a surge in demand

By DAVID MARSH in London and BERNARD SIMON in Johannesburg

FAR-REACHING changes in supply and demand patterns on the world gold market have taken over from World War III scares as the main driving force behind the soaring hullion price.

At the beginning of January, in the nerve-wracking aftermath of the Soviet invasion of Afghanistan, tha gold market was in a state of "boom and bust," to use tha words of Mr. Paul Volcker, the chairman of the U.S. Federal Reserve. Stability-minded central bankers joined with the rest of the world in gawping disbelievingly at a bullion price of $850 per ounce.

Six months later, gold no longer occupies the same place in the beadlines. Yet the price is edging back towards $700 per ounce, still more than double the level of a year ago, and around $200 ahove the short-lived low of $470 reached during the U.S. financial squeeze in March.

This time panic buying is not to blame although there are still obviously large-scale speculators around. Instead, the market seems to be reacting to the likelihood that supplies to the western bullion markets could be cut very sharply this year.

> "Gold may have no official status. But it is not unloved."

One fundamental reason for the likely supply squeeze is that gold bas olearly regained an important, though informal, place in the *international* monetary system.

After a decade of debate over whether the metal should be "demooetised," central banks and governments are now in no doubt ahout the usefulness of tbe greatly increased value of their gold reserves. This has bad two important repercussions on the market. It has lowered the readiness of official bolders to dispose of their stocks, and has increased demand from countries with low gold reserves, in the Middle East and elsewhere, to build up their boldings.

As M. René Larre, general manager of the Basle-based central bankers' bank, the Bank for International Settlements, puts it: "Gold may bave no official status in the monetary system. But it is not unloved."

The result of these shifts in supply and demaod may be tbat the gold price will remain aronnd levels which Mr. Volcker and other central bankers regarded as an aberration at the start of the year.

The significance of this is oot diminisbed by the fact that the henefits are highly unevenly spread. They are concentrated almost exclusively on South Africa and the Soviet Union, whicb mine the lion's share of the world's gold; on the central banks and treasuries of the West's 10 leading industrialised countries, which own 85 per cent of monetary gold reserves; and on the relatively small number of individuals and institutions either fortunate, far-sighted or frightened enough to have sunk their savings into the yellow metal.

There are several individual strands to the shake-up in bullioo trading patterns. South Africa and the Soviet Union have adopted more flexible sales policies in an effort to keep prices up. Official gold sales by the U.S. Government and the Internatiooal Monetary Fund, which between them supplied 535 tonnes of gold to the markets last year, have stopped for the moment. In part this reflects *misgivings within the* U.S. Treasury, the main proponent of "demooetisation," about the wisdom of carrying on with such sales.

Consolidated Gold Fields, the London-based mining finance house, reckons that total gold supplies to western markets could fall to as little as 1,100 tonnes this year. This would be 40 per cent down on last year, and the lowest figure since 1970.

On the demand side, a significant new source of buying pressure has been added to the traditional regular purchases by jewellers, dentists, industrial users and private investors. Central banks and government-connected institutions from developing countries — ranging from the oil rich Middle East to their poorer relations in Latin America—have emerged as buyers on the market. Many countries are clearly embarked on a *strategy* of huilding up their gold reserves.

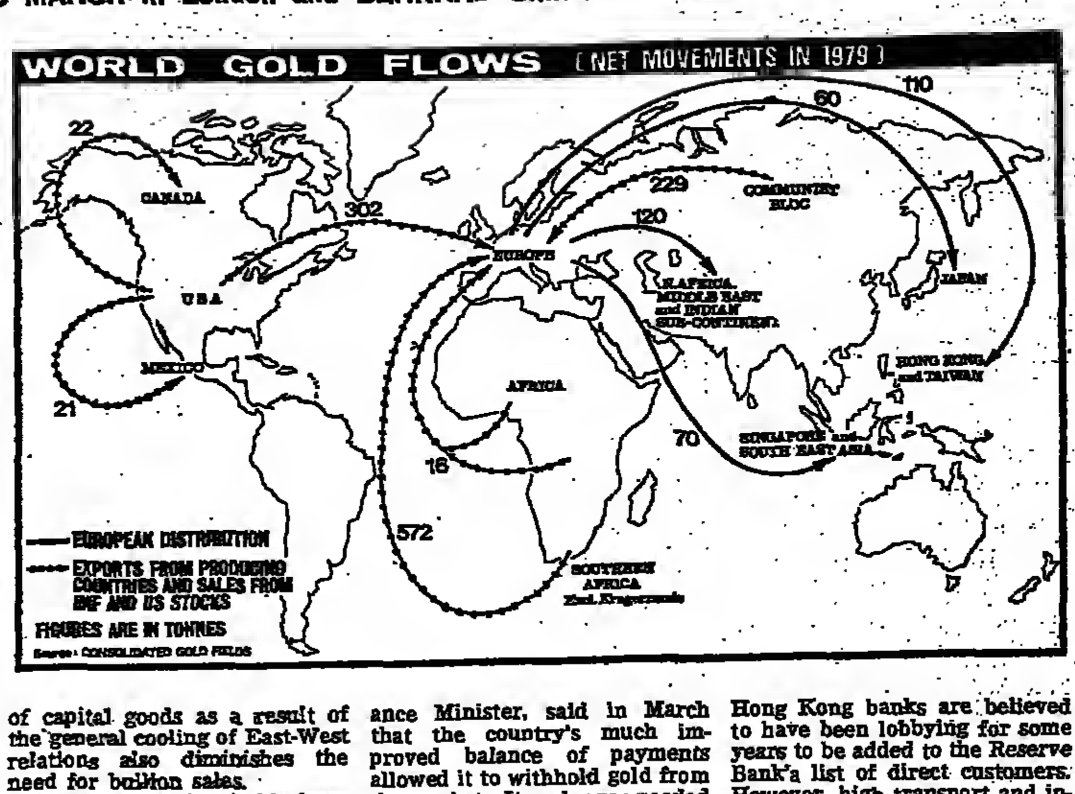
These purchases from the Third World bave been "small but regular," according to Mr David Potts, Consolidated Cold Fields' gold analyst.

Mr Robert Guy, a director at N. M. Rothschild and one of the leading figures on the London gold market, makes the point about increased official buying during the last few months: "When the price fell below $500 this was seeo as an extremely attractive opportunity for central bank purchases." And the chief bullion dealer at one of the hig Swiss baoks in Zurich observes that "in a market where *supplies* are hard to come by, this element of ceotral bank demand can make all the difference to the price."

One of the main reasons why supplies are tight—particularly in Zuricb—is because of a marked drop in gold from the Soviet Union. Net sales to the West by the Russians, including the small transactions of some of the other members of the Communist bloc, came to only 229 tonnes last year, according to Cold Fields. In 1978 the Communists sold 410 tonnes.

The Soviet Union has made no recorded sales at all to the Zurich banks, its traditional outlet to the West, this year. Mr Potts believes the sales figure may fall to 150 tonnes in 1980 —and could be even lower.

Western analysts say the lack of Soviet sales this year may simply indicate the fact that Moscow does not need the cash. Higher prices for oil and other raw materials sold to the West have undoubtedly bolstered Soviet foreign exchange reserves. A slowdown in imports of capital goods as a result of the general cooling of East-West relations also diminishes the need for bullion sales.



But there has inevitably been speculation—so far impossible to verify—that the Soviets have diversified their sales channels and are arranging bilateral deals with oil-producing countries.

"After six months of holding back supplies from Switzerland, it's almost impossible to believe that they aren't selling somewhere. But there is no evidence at all for any bilateral deals," says one London analyst.

Tentative evidence that the Russians might indeed have financing problems has come from a rather puzzling set of figures from the Bank of England, showing that the Soviet Union withdrew nearly half its foreign currency deposits in Loodon, almost $1.5bn, during the first three months of this year. But this could have been due to many other factors than simply the need to finance, say, the Olympic Games.

Whatever the puzzlement about the reasons, the absence of Soviet gold from Zurich has been a key factor underpinning the gold price this year. Persisteot shortages in Zurich provided on reason why the Swiss banks bave regularly to arrange Swissair cbarter flights lo transport hullion from the London market to Switzerland.

> Perhaps the Soviets have made gold deals with the oil producers

South Africa's selling policies preseot less of an enigma, as there is more informalion about them. The Republic prides itself on its reliability as a supplier. Since it depends on gold sales for 46 per cent of exports, it is clearly not io the same position as the Russians lo manipulate the market. But it has definitely moved to a more flexihle policy aimed at supporting current price levels.

Mr. Owen Horwood, the Finance Minister, said in March that the country's much improved balance of payments allowed it to withhold gold from the market. It no longer needed to sell all current ontput at once.

Sizeable quantities have evidently heen held back recently. The Reserve Bank's gold holdings had risen to 351 tonnes at tha end of May from 299 tonnes in September—although part of this increase may have been due to repurchases of gold pledged to Swiss banks nnder "swap" arrangements in 1976 and 1977.

South Africa has also been making a major effort to diversify its markets—and again the Swiss banks have been the main losers.

The Zurich gold pool had a virtual monopoly on South African bullion in tha late 1960s after the political hostility of the Wilson Government prompted South Africa to cut sales to the London market.

The London dealers have returned to favour, however. The Reserve Bank refuses to disclose how much gold it sells to wbom, but mining experts guess that *London* now takes about 20 per cent of the total, compared with around 55 to 60 per cent going to Switzerland. British dealers are believed to be the only buyers who have been getting at least some gold every working day.

Since mid-1976 the Reserve Bank bas also been selling bullion direct to German banks, notably Deutscbe and Dresdner, and U.S. dealers such as J. Aron and Republic National Bank.

The German and American share of Pretoria's bullion sales is currently around 20 per cent, considerably higher than it was a year ago. The German banks in particular enjoy strong financial links with Pretoria. They bave managed to raise their offtake by putting in higher bids (thereby accepting a narrower spread) than the Swiss banks: "The Reserve Bank's view is that it sbould sell to the bighest bidder," says a mining industry expert.

The South Africans bave not been sbort of inquirles from other sources for their gold. Hong Kong banks are believed to have been lobbying for some years to be added to the Reserve Bank'a list of direct customers. However, high transport and insurance costs for South Africa-Hong Kong traffic makes it difficult for them to bid competitively.

The big question is whether Pretoria has done any gold-for-oil deals with the Middle East countries which have been major gold investors in recent years. Commercially, such transactions make sense. South Africa is officially hoycotted by most oil prodncers. Since the cut-off of Iranian supplies, it has at times found it difficult to secure reliable sources of oil. And the Reserve Bank could *probably improve* its margins slightly by selling direct to the Arabs.

Officials of the South African Chamber of Mines, which aells krugerrands, are known to have visited some Middle East countries *normally closed* to South African visitors. Bnt there is no firm evidence yet of direct sales or barter agreements with buyers in these states.

Oil producers in the Middle East and elsewhere, as well as several other developing countries, have however clearly been bnying this year, either on the open market or through bilateral arrangements.

Figures compiled by the International Monetary Fund on countries' gold reserves offer a clue to what has been going on. The statistics provide only an indication as purchases are often made by quasi-government organisations or even private individuals acting in a semi-official capacity rather than central banks.

None the less, the IMF figures show some interesting movements. Indonesia has built up its reserves this year by 1.49m ounces (around 46 tonnes) to a total of 1.77m ounces. Only around 55,000 ounces of this can be accounted for by the general redistribution of IMF gold to member countries carried out at the start of the year.

This is the largest individual build-up recorded by the Fund statistics. To put the movement in perspective, Indonesia's gold reserves at current prices are now worth just over $1.1bn, while those of the U.S. are valued at over $175bn.

Other countries to have built up their reserves this year from sources other than the IMF include Libya, Iran, Bolivia, Colombia and Peru—with the net amounts added averaging around 200,000 ounces.

Iran's net addition of around 400,000 ounces corresponds almost exactly to the 14 tonnes of gold it is known to have withdrawn physically from the UK this year. These shipments *from tha London market may* represent recent purchases withdrawn for fear of an assets freeze over the U.S. hostages drama.

As far as the western central banks are concerned, there seems little to indicate that they will unload supplies on to the market. M. Larre makes the point that the industrialised countries can take advantage of the increased value of their gold reserves without needing to sell any of their stocks. Within the EEC, the mechanism set up undar the European Monetary System allows central banks a painless way of mobilising their gold holdings by *permitting* them to use gold-backed European Currency Units to settle intervention debts.

There is also another way in which gold can be used "invisibly" as a means of external financing. M. Larre points out that the large gold stocks owned by countries such as France or Italy increase their credit-worthiness and allow them to borrow large amounts on the Euromarkets.

> The gold market feels that the U.S. will sell no more metal

Some countries might be prompted by the higher gold price to dispose of part of their gold reserves and maybe even make a profit — as Canada did by selling around 11 tonnes of gold earlier this year.

But it appears that most governments and central banks whatever their formal commitment to the merits of paper money, want to hang on to their gold stocks as long as they can.

The experience of the U.S. Treasury provides a powerful example. Pursuing its twin policy of trying to demonetise the metal and to boost the dollar, the U.S. sold 491 tonnes of gold, worth around $10bn at current prices, during the past two years—but now seems to be *convinced* of the short-sightedness of disposing of an appreciating asset.

The last U.S. gold auction was in November. Although the official line remains that further auctions might be made at any moment, the gold market feels there will be no more American sales for some time. As M. Larre puts it: "They now know better."

MEN AND MATTERS

Return flights for Mandarins

As I learned from my canary, Eresmus, a bird with no opportunity to stretch its wings quickly goes off-song and takes to moping on its perch. The same, it seems, applies to the young eagles of the Civil Service. Accordingly, potential high-fliers—with strong homing instincts—are being released in increasing numbers for spells oo secondmeot to industry and commerce.

The latest to fly the coop is 35-year-old Martin Hall, private secretary to Chancellor Sir Geoffrey Howe, who today starts a two- to three-year stint as heed of commercial affairs at the Engineering Employers' Federation. Courtesy of tha Treasury's new Rent-a-Mandarin service, which now has a dozen people in banks, shipbuildiog and other industries, be will service the EEF's economic needs and guide the Federation through the entanglements of the Common Markat.

Says director-general Anthony Frodsham: "I am delighted. He is an ideal young man with a future in the Treasury. I bope the experience be gets here will last him well wben ha returns." And there will doubtless he much for the EEF to learn. Uncomfortable in its old role as a staid, traditional employers' club, it is anxious to develop more sinew es a pressure group and a reputation more fitting for the CBI's biggest member.

"The posting appeals to my personal prejudices," Hall confesses. "I have worked overseas and on the industrial aide—and my *family* comes from steel country in Sbeffield."

He reports being agreeably surprised hy the "flexibility" of his masters who arranged the transfer. "I bad met people from the EEF, and the idea sort of bnbbled up. I think the Treasury takes the view that if something arises naturally like that it is worth doing."

He shares Frodsham's belief that there will be more similar secondments. They provide valuable commercial experience for ambitious civil servants (while relieving over-crowding oo the promotion ledder) and tigbten the links between Whitehall and business.

In the Civil Service Department, however, I detect signs that all this to-ing and fro-ing is not exactly popular among the men who have to keep track. There are now 97 "middle management" men from the service in the field, an official tells me. "If you get more of it," he says in resigned yet cautionary tones, "you will bave to set up yet another mini-hureaucracy to deal with it."

Witch hunt

Hex casters, whita witcbes and allied wand-wavers finding the market for their skills a bit thin over the *past* century or two should broomstick over to Biggleswade, where occult arts are once more in demand.

The occasion is the Holme Mills festival, August 2 to 3, which aims to recreate a traditional folk fair which lapsed in Victorian times. It will feature euphoniously-named crafts like stooking, bodging and quilling, together with dwile-flunking and bread-baking contests. The only missing ingredient, organiser Stella Chinn tells me over a cauldron of bats' hrew, is a white bex caster, to counter black forces striving to sour the milk and rot the bread.

"We are," she said—and I do not doubt her—"absolutely genuine."

Parting shots

Looking forward to a visit to Wimbledon last Friday, British Home Stores' managing director Colin Paterson was told firmly by his chairman, Sir Jack Callard, that he must sacrifice Centre Court thrills for a retailers' lunch in the City.

Even though rebellion would bave beeo nnderstandable—after all, Patersoo retires at the end of the mooth—he dutifully put away his eye-shade and headed East to the Skinners' Hall, where be fell unsuspecting victim to an up-market version of This Is Your Life.

Doubling admirably as Eamonn Andrews, was Robin Althaus, urbane doyeo among retail analysts. There too were two dozeo of the City's other retailing specialists offering an uoprecedented thank-you to Patersoo for his role in improving contacts between BHS and the Square Mile.

Paterson graciously returned the welter of compliments. "I have never been under pressure," be remarked, "to divulge more than would be proper." "You'va never had a had set of figures to axplain." offered Callard, e salesman for all occasions.

Nor did the guest of honour miss his sporting engagement. On closer inspection he found his tickets were for Saturday.

Tourist attraction

Andorra is not the only European principality to feel that its unique national flavour has been unfairly represented abroad. Liechtenstein is another plucky little stata determined to put the record straight. "As e small country," thunders the government's latest brochure, "it is in Liechtenstein's interests not to tolerata the presence of anyone who could sully its reputation by underhand or illegal maooeuvring." In a chilling ultimatum to ne'er-do-wells, it warns that "attempts are made wherever possible to achieve this eod."

What could make vulnerable Vaduz so attractive to the "massive influx of foreigners and concomitant excess of foreign population"? reported in the booklet.

"The answer," says my man on the spot, must ba the food. National disbes include "Torkarbebl — cornflour is boiled up with milk, water, and salt until a solid mass is obtained. *Milky coffee* is usually served with it." Or, for variety, "Hafalab — wheat and cornflour is mixed up with water to give a dough, which is made into cylindrical loaves and boiled in salt water until the loaves rise to the surface." Mmm.

Safe house

Fans of Our Leader abould form a queue outside the offices of Little Venice Estates, if their enthusiasm extends to paying £34,000 for a three-bedroom flat "facing Mrs. Thatcher's home." The "beautifully appointed" residence comes on a 13-year lease—ample time, perhaps, to see Mrs. T. through the peak of ber career. While Flood Street may not be the daintiest of the Kings Road backwaters, nervous residents may enjoy what is no doubt a higher-than-your-average level of atteotion from the boys in blue.

Observer

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FINANCIAL TIMES SURVEY

Monday July 7 1980

Hong Kong

The colony is advancing quickly. It has had four years of double figure GDP growth and China, which once viewed it as an unhappy necessity, now courts its modern ideas and the wealth which flows from them. But the Government must take a more positive role if the impetus is to be sustained.

CONTENTS

Introduction	II	Finance	VII	Electronics	XI	Recruitment	VXI
China relations	II	Trade	VIII	Offshore Oil	XIII	Property	XVII
Economy	III	Re-exports	VII	Energy	XII	Education	XVII
Guandong	IV	Banking	IX	Airport	XIII	Housing	XVII
Budget	VI	Industry	X	Tourism	XIII	Squatters	XVIII
Stock Exchange	VI	Plastics	X	Transport	XIV	Corruption	XIX
		Textiles	XI	Labour	XVI	Gold	XX

Still travelling hopefully on the headlong rush into the future

HONG KONG has travelled very far very fast in the past three years. It has had neither time nor inclination to stop and think about where it is going, suggesting that for this anomalous but very necessary city state it is better to travel hopefully than to arrive anywhere too specific.

The movement has been on two fronts. Most obvious has been economic progress, outstanding even by Hong Kong's pace-setting standards. Four years of double digit expansion in Gross Domestic Product has more than made up for the 1975/75 recession setbacks and even now with world markets facing severe recession, the figures mostly look surprisingly good. The Government's February forecast of 9 per cent GDP growth for the current year may have to face a little downward revision later this year because of the suddenness of the fall into recession of the UK and U.S. economies. But even the pessimists are still looking for 6-7 per cent growth this year.

The economic outlook into 1981 is at this stage rather dismal. But Hong Kong can take comfort from the fact that, despite its external trade dependence, it does have its own economic future at least in part in its own hands.

It knows what those hands have wrought—a dynamic and perhaps uniquely flexible economy, a society entirely imbued with the spirit of commerce. It is difficult for those who live there to realise that in many parts of the world the very word "commercialism," the only "ism" of importance in Hong Kong, has a pejorative air. It is Hong Kong's individualistic commercialism which is at the root of the colony's success and puts it in spirit closer to the overseas Chinese of South East Asia than to the East Asian economies, Japan and South Korea, where the battalions of heavy investment and large scale organisation and mass discipline are the driving force.

Hong Kong's other fast moving front has been an altogether less familiar one than commerce and industry. It is also one where Hong Kong's destiny is almost entirely outside its own hands. That is, the external political environment.

The change in China's attitude stemming from the Four Modernisations policy has had a dramatic effect on the way in which Hong Kong is viewed from across the border. Where there was once sullen and silent acceptance of the necessity for this capitalist and colonialist leftover from the past, there is now an almost simplistic yearning for Hong Kong as the fount of modern ideas and their attendant wealth.

Chinese zeal

That is reflected in the zeal with which China has moved to attract investment from Hong Kong to create co-operative ventures both in China and in Hong Kong with local and foreign capitalists, and to use the most blatant and banal techniques of modern consumerist advertising to sell its wares in Hong Kong.

At more mundane levels are the close co-operation, on a day to day basis, between officials of Guangdong and Hong Kong on a large number of practical issues such as water supply. Mutual visiting by officials has become commonplace.

At the highest, but least specific level, are the contacts which have been made in Peking by the Governor, Sir Murray MacLehose, and the Financial Secretary Sir Philip Haddon-Cave, both of whom visited the capital in the past year.

Meanwhile, back in London the election of a Conservative Government last year has also been a boost to Hong Kong. Under Labour, Hong Kong way at best a nuisance to Britain, at worst a pariah. For Mrs. Thatcher's Government, the City state is a shining example of what can happen when the spirit of commercialism is unchained. Gone is the talk heard in the corridors of Whitehall two years ago that Britain should be looking for a way out of its responsibilities to Hong Kong.

But improvement in the political climate does not in itself remove the political problems that do exist. These are twofold. Firstly, who should run (rather than merely administer) Hong Kong in the long term? And secondly, as relations increase so inevitably will differences of interest. How will these be settled?

The most glaring difference of interest at present is over immigration. Although China has tightened the border since the peak inflow last year, legal and illegal immigrants continue to flood to the overcrowded city. This year, immigration is expected to add 3 per cent or nearly 150,000 people to the population.

China, it seems, lacks the will to stop the flow. Why? It could be part of policy to sustain inflow at whatever level it thinks the Hong Kong economy can absorb. China is not going to allow itself to be blamed for creating mass unemployment should there be a recession. But it is also in China's interest to maximise its own earnings from Hong Kong, and, perhaps, slow the rate of growth of per capita incomes in Hong Kong to prevent further enlargement of the gap with China.

In practical terms there is now a strong case for Hong Kong returning all illegal migrants to China. There is even a case for refusing to accept all the legal migrants (those allowed out by China). But does the Hong Kong Government have the political will to undertake policies which are clearly in the interests of Hong Kong's residents but may run contrary to the desires of the ultimate landlord?

Power sought

The question of the location of real power links to that of the problem of the expiring lease. This is not a topic to which Peking is in any hurry to address itself. But Britain, and foreign investors, do need the surety of some sort of legal basis for their continued presence. And Britain must expect that its responsibilities in Hong Kong must be accompanied by real power. It cannot allow its authority to continue to be whittled away by the rapid growth of day-to-day links between Hong Kong and China and the natural assumption in China that the authorities in Hong Kong are just convenient catspaws.

Last year, Sir Murray MacLehose's successful term as Governor was further extended to 1982. Hopefully for Hong Kong this period will see substantive discussions with China about the future in place of the morale-boosting pleasantries which so far have emanated from Peking.

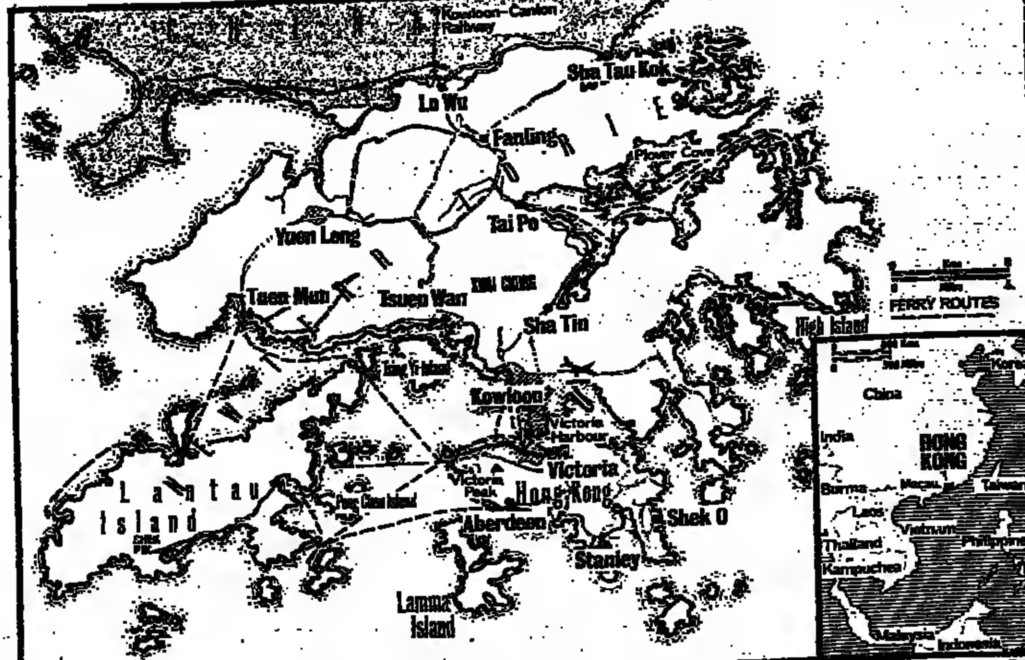
Government in Hong Kong has always been a sickly child, mothered by necessity but illicitly fathered by commerce rampant. Now the economic and social requirements of a more sophisticated society demand a more positive, interventionist role by Government. Yet that Government's self-confidence is being sapped by its awareness of archaic origins. It is squeezed between a multitude of demands.

There is an increasingly large and articulate educated middle class looking for bureaucratic power, and a new Chinese business class looking to supplant older, European, elites. There are the aspirations of Peking and Canton. And the aspirations and social needs of Hong Kong's majority—its working class. There are the forces of corruption, still at large. And there is a police force too aware of its power and indispensability for the public good.

The Government expected to accept some responsibility for helping to promote economic and financial stability, law, order and justice. Yet last year its pleas to the banks to show more restraint in granting credit went largely ignored. And the commission it appointed to supervise the conduct of the securities industry was treated with contempt by the most powerful local commercial institution, the Hongkong and Shanghai Banking Corporation.

The task before both the Hong Kong Government and China may be to learn that administration and government are not the same thing.

Philip Bowring



BASIC STATISTICS

Area	404 Sq. Miles
Population (79)	4.9m (est.)
G.D.P. (79)	£7,946m (est.)
Per capita (79)	£1,622 (est.)
Currency £1: 11.50 Hong Kong dollars	

Imports: HK$ 85,852m (£7,787m)
Domestic Exports: HK$ 55,925m (£5,073m)
Re-Exports: HK$ 20,024m (£1,816m)
Imports from U.K.: £442.2m
Exports to U.K.: £690.7m

China plans to gain from its capitalist neighbour

HONG KONG has prospered as China has set out on a course of modernisation. Mercifully, Peking is convinced that it, too, stands to gain by the colony's brash brand of capitalism.

At present, business confidence is high, bolstered by calming words from Peking that hearts should "rest at ease" over the future of the colony. There are ominous signs, however, that unless concrete action replaces promises within two years, then the bubble will burst.

The conundrum rests with Britain's lease on Hong Kong's New Territories, which is due to expire in 1997. China has never recognised the lease, claiming it was signed by the then Chinese Government under duress. In their eyes, Hong Kong is—and always was—part of China.

Mr. Jimmy McGregor, director of the Hong Kong Chamber of Commerce, and one of Hong Kong's most-travelled businessmen in China, has strong views that carry great weight both in Hong Kong and in Peking.

"Hong Kong exists on international confidence alone," he said recently. "The business decisions taken by Boards of directors in the international companies based here will only be taken if they have a reasonable expectation that the status quo will not be disturbed. When you talk of confidence to invest, it's not 1997 you are looking at—it's 1985."

Mr. McGregor claims that once a loss of confidence becomes observable, the curve of falling confidence will be steep. Investments tied down by over 500 foreign companies in Hong Kong, worth a total HK$3bn, would be in jeopardy. These companies account for 8 per cent of the Colony's exports, and employ 8 per cent of its workforce. Local companies would quickly suffer, and the Colony's trading and financial community would vanish.

Crucial trigger

"If China has any intention of permitting the maintainance of a British Administration in Hong Kong into the next century, then China had better make that clear within the next two to three years," he adds.

The most crucial trigger will be when loans and mortgages—normally repaid over a 15-year period—stretch beyond the lease expiry date. That trigger slips in June 1982. Less specifically, companies' long-term investment plans, expansion plans and decisions to upgrade equipment will soon be undermined without guarantees that the status quo will persist beyond 1997.

"The Chinese must completely understand this," Mr. McGregor insists. "They are by no means ignorant of the facts. The British Government clearly understands the position, but Hong Kong is a small place a very long way from Europe. It's a small problem among a lot of larger ones. Britain no longer much likes the idea of colonies, and China finds them anathema."

Unfortunately, Hong Kong seems to be just as small an issue for the Chinese as it is for the British. As one analyst recently noted: "As the most populous nation in the world sets about modernising its economy, its leaders are not about to be distracted by questions surrounding the status of between 5-6m people living on borrowed land."

The Chinese leadership has shown no sign of intending to take an early decision. Mr James Callaghan, former British Prime Minister, came out of China just a month ago after discussing the future of Hong Kong with Peking leaders. He said: "There was no sense of tension on their part, nor have they got it on the front of their minds or on the agenda. They have internal problems of very great moment that they regard as demanding their day-to-day attention rather than the problem of the future of Hong Kong.

"They see the value of Hong Kong as much as anyone else does, and I would guess that when the time comes for discussions, it ought to be possible to reach an agreement."

Mr Callaghan advised Hong Kong to put the issue "on the back burner for the time being."

In the meantime, economic links with the mainland have multiplied. China earns one third of its foreign exchange through Hong Kong—about $4bn. Over 28 per cent of Hong Kong's re-exports come from China, and in 1979 were worth HK$5.66bn. China is now Hong Kong's ninth largest export market, after 500 per cent growth between 1978 and 1979.

'Shop window'

Hong Kong gets almost half of its food from China, 60 per cent of its water, 30 per cent of its fuel, 18 per cent of its consumer goods and 13 per cent of its raw materials.

Apart from the fact that Peking uses Hong Kong as a "shop window" on Western technology and expertise, Chinese investments in the colony are burgeoning. They range from banks and property to manufacturing industry and retail outlets.

China Resources, and other proxy organisations which receive finance from the Bank of China, have been active property buyers. Major projects, like China Light and Power's new multi-billion dollar thermal station, have substantial Chinese funding.

There is talk of Hong Kong being used as a base for oil exploration in the South China Sea, perhaps with a refinery processing Chinese crude. Its port is undisputably better than any in China, and is likely to be exploited as a focus for Chinese shipping.

Joint ventures and compensation trading arrangements concluded between Hong Kong companies and suppliers in China have become too numerous to list. Hong Kong businessmen are daily visitors to neighbouring Guangdong and Fujian province. The export processing zones (EPZs) at Shenzhen, Jiuhai and Shikou are fast being transformed from bare plots of land to busy business centres.

Bill Dorwood, director of Hong Kong's Trade, Industry and Customs Department, is a recent visitor to the EPZs. He said: "They are clearly going to be very substantial and significant developments, attached like limpets to the Hong Kong economy."

A recent Hong Kong mission to Canton, led by Sir Yuet-Keung Kan, head of the colony's Trade Development Council, discussed joint infrastructural development between the colony and Guangdong—double tracking and electrifying the railway line to Canton, and building a duel carriageway road. The economic fates of Hong Kong and its Chinese hinterland have become irrevocably interwined.

Along with the economic links, political contact has become routine. Since Sir Murray Maclehose's visit to Peking in May last year, top-level talks have been held with Chairman Hua Guofeng, Vice-Premier Deng Xiaoping, Foreign Minister Huang Hua, and trade Minister Li Qiang. Sir Philip Haddon-Cave, Hong Kong's Finance Minister, Sir Y. K. Kan, and numerous other leading businessmen have been feted in Peking.

Despite the improving relationship, and the recognition that both parties need and gain from their close relationship, areas of conflict have emerged.

The most obvious is the critical problem of illegal immigration into Hong Kong. More than 175,000 Chinese escaped to Hong Kong last year, making nonsense of the colony's population growth projections, and putting severe strain on housing and other amenities. Talks have been held on this problem in Peking and Canton, and Hong Kong authorities are convinced the Chinese army is doing its utmost to staunch the flow. But observers agree that it will only stop with greater affluence on the mainland—only then will the bright lights dim.

There is fear that China's exports may soon compete with those of Hong Kong, particularly in textiles, garments, and electronic goods. Li Qiang, China's Trade Minister, has given an assurance that "the development of industries in China for export will not undermine Hong Kong's prosperity through competition for world markets." Hong Kong businessmen will believe it when they see it.

Conflicting interests also emerge in planning for a new international airport to serve the region. Hong Kong's Kaitak airport is expected to reach capacity by 1985, and a new airport must be built.

A site on a small island north of Lantau has been selected as most appropriate, but the Chinese have hinted that they would prefer an airport on the Chinese side of the border, designed to serve both Hong Kong and Canton. There is uncertainty over Hong Kong's ability to finance an airport of its own without Chinese financial backing, so opposition could block development.

Conflict

Most crucially, there are conflicting ideas about the extent to which Hong Kong can merge with the surrounding region. Some voices in China argue that the colony could eventually merge with Guangdong province, simply becoming a wealthy and industrialised zone. Other voices in Hong Kong panic at such an idea, claiming this would destroy the free-wheeling capitalist system which has made it wealthy.

Hong Kong must evidently become Chinese in due course—the question to be resolved is how. Mr. Jimmy McGregor is prepared to offer a solution which would satisfy business confidence: "If Britain repudiated the leases as illegal and improper, and as a *quid pro quo* the Chinese recognised Britain's magnanimity and friendliness, simultaneously agreeing that Britain should be allowed to administer Hong Kong until the matter could be permanently resolved, say in 2020, then we would have no reason to worry."

Britain would have washed its hands of the "colonial" embarrassment, Chinese concern over sovereignty would be resolved, and Hong Kong would remain a highly internationalised city with a powerful mixture of Chinese and foreign influence running the economy. The phrase "British-administered territory of Hong Kong" has a promising ring about it.

David Dodwell

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World situation governs where the economy goes next

HONG KONG is usually seen as a boom and bust economy, more boom than bust for sure, but nonetheless it has a reputation for going to extremes. But those who have been waiting for a bust for anything up to 18 months have so far seen their dismal forebodings confounded.

Certainly the statistics suggest that the cycle is overdue for a sharp turn. In the post-1975 recession period, Hong Kong has enjoyed the longest sustained boom in its post-World War II history. Every year from 1976 to 1979 it recorded double digit growth in Gross Domestic Product. The average for the four years was 12.5 per cent. This year, growth is forecast to fall to around 9 per cent, but that is still up to the pre-1974 average at a time when world growth rates are significantly below the pre-1974 levels. Such a performance, brisk even by the standards of Hong Kong, poses three questions:

- Is a bust now imminent?
- Has the performance been due to some very special and unrepeatable factors?
- Has the economy matured and broadened to the point where it is able to make a stable transition from very rapid growth to sluggish conditions?

It may seem paradoxical, but the answer to all three questions may well be a qualified "Yes."

Not alone

As ever, the world situation is by far the largest determinant of where the Hong Kong economy goes next. But it is not the only one. Historically, Hong Kong's trade has grown about 50 per cent faster than world trade and its economy by a rather lesser amount. But in the past few years, the very rapid growth of service industries has enabled the economy to expand much faster than manufacturing. That is a stabilising factor.

At the same time, however, the overall economic situation has perhaps become potentially more volatile than in the past due to erratic behaviour of money supply, the increased role of the construction industry, and the property sector generally, and large scale immigration from China.

Last year, trade expanded considerably faster than even the optimists had predicted. In real terms, domestic exports grew by 16 per cent and total exports by 19 per cent as re-export business leapt by 29 per cent as Hong Kong re-emerged as a significant entrepot port for China trade.

Sales to Britain and West Germany were especially strong, growing by 28 per cent and 22 per cent in real terms respectively, partly in response to the sharp decline of the Hong Kong dollar against both sterling and the Mark. Sales to the U.S. on the other hand expanded only 8 per cent in real terms. Hong Kong's relative market position last year seems to have been strengthened by over-valuation of the Korean won (which has since been devalued) which dealt a severe blow last year to this former front runner among East Asian exporting countries. For the year as a whole the Hong Kong currency was 8 per cent lower on a trade weighted basis. Meanwhile wages rose 19 per cent.

Dramatic rise

External demand last year was thus better than expected and Hong Kong was able to meet it in large measure due to the huge influx of immigrants from China, and absorption of many Vietnamese refugees into the workforce. The population of Hong Kong last year rose by a dramatic 6.3 per cent and the workforce probably by an even greater amount. The influx held down wages in the unskilled manufacturing sector, enabling industries to maintain competitiveness when only a short while earlier excessive domestic demand was threatening to raise wages above internationally competitive levels.

The trade story so far this year, however, is not so encouraging. In his Budget, the Financial Secretary Sir Philip Haddon-Cave, forecast growth of domestic exports of 7 per cent in real terms, underpinning a 9 per cent rate of growth of GDP. Domestic exports in the first four months grew 36 per cent in money terms over the same period of 1979, but the momentum has slowed since the last quarter of 1979 and sharply lower year on year increases can be expected in the coming months. Sales to the U.S. and UK held up well in the first four months but the impact of the recession in which both countries are now mired has yet to be reflected in Hong Kong's trade figures.

Recession and higher energy prices are likely to lead to some deterioration in Hong Kong's terms of trade, which have been steady for the past few years. On the brighter side, the fact that Hong Kong's industries are not energy dependent or transport related should provide a shield.

At present there is more concern at the level of the visible trade deficit than with export demand. The deficit in 1979 was HK$9.9bn, 10 per cent higher than the previous year but less than expected and a level roughly matched by earnings from services.

Service receipts have grown very rapidly in the past few years. Statistics on them were almost non-existent until recently and even now are only approximate. But it is estimated that for 1978, service exports amounted to HK$14.4bn and imports to HK$7.1bn leaving a surplus of HK$7.3bn.

Since then, earnings, particularly from financial services and entrepot trade, have increased rapidly, but so too have payments, largely due to the very large amount of travel both to China and overseas now done by Hong Kong people. Last year the services surplus is estimated at HK$10bn—the same size as the trade deficit.

This year however, the trade deficit is widening sharply. The first four months showed a deficit of HK$6.3bn compared with HK$4.6bn for the same period of 1979 and there is unlikely to be a second half improvement of the size seen last year. Though as a percentage of total trade the deficit will remain within historical limits, its sheer size could cause a marked weakening in the currency unless interest rates remain above most levels overseas.

The Government at least is likely to oppose interest rate reductions. Although prime rate has been reduced by 3 percentage points from the 16 per cent record it reached in March, the government is still concerned to try to keep the lid on demand for credit and it wants to avoid a decline in the currency adding to price increases.

Inflation is now at a worrying level. Though not as high as it reached in 1973/74, it seems to be more deeply ingrained. Consumer prices in 1979 were an average 12 per cent up on 1978, part of the cause being the currency decline.

ECONOMIC STATISTICS

	1979	1980 Budget forecast
GDP real growth	+11.5 per cent	+ 9.0 per cent
per capita	+ 4.5 per cent	+ 5.0 per cent
Domestic exports	+16.6 per cent	+ 7.0 per cent
Re-exports	+28.8 per cent	+14.0 per cent
Imports	+15.6 per cent	+11.0 per cent
Trade balance	−HK$9,902m	−HK$12.5bn
Private consumption	+ 7.7 per cent	+ 9.0 per cent
Public consumption	+12.3 per cent	+12.0 per cent
Capital formation	+23.0 per cent	+15.0 per cent
Money supply (M3)	+29.0 per cent	na
Consumer prices	+11.6 per cent	+10.0 per cent
GDP deflater	+13.3 per cent	+11.0 per cent
Manufacturing wages (Sept. '79)	+HK$48 per day	na
Exchange rate index	− 8.0 per cent	na
Unemployment rate	+ 3.0 per cent	na
GDP at current prices	+HK$87bn	HK$106bn
per capita	+HK$17,825	HK$21,000

TRADE GROWTH RATES IN REAL TERMS

	Total exports of goods (%)	Total imports of goods (%)
1970	8.4	13.6
1971	6.5	13.8
1972	6.8	3.5
1973	12.3	10.7
1974	−6.3	−10.3
1975	3.2	3.8
1976	28.0	24.8
1977	5.1	7.9
1978	13.8	21.5
1979	19.5	15.6

But although the currency has stabilised, the rate of price increase has gathered speed and is currently running at around 15 per cent.

Money supply has been growing even faster, but how much of this is cause and how much effect of inflation is a matter of debate. The Government claims that inflation is largely imported and money supply has only been rising slightly faster than nominal GDP. However, it is anxious to bring money supply and credit under tighter rein through interest rates. Increases in broadly defined money supply and total credit to the economy are probably now slowing but at 6.9 per cent and 13.9 per cent respectively in the first quarter alone there is a long way to go.

Over-exposed

Excessive credit growth may, in Hong Kong's open economy, not be especially inflationary. But it clearly threatens financial destabilisation if it comes to an abrupt halt or the economy moves into recession. Credit increases have been most pronounced in the construction and housing sectors. Many property values seem based on the assumption that credit increases will continue at recent levels. Meanwhile high land prices and interest rates and dampening demand for premises are leaving many developers over-exposed.

Although heavy immigration has increased the need for more housing and helped keep down increases in construction costs, it has also held down the increases in real incomes needed if private sector housing is to flourish. Although manufacturing wages as a whole rose by some 5 per cent in real terms last year they are now declining again. Immigration has slowed but population growth is still expected to be well over 4 per cent this year indicating negligible per capita income growth.

The impressive GDP figures of the past two years have tended to hide the negative impact on both the money and social wage of high immigration. In the very short term the economy may have benefited, equalling export demand to be met and wage cost pressure to be dampened. But in the long term the influx dilutes the impact of Government social spending and impedes the economy's shift to capital-intensive, higher value added industries. Capital will stay in labour-intensive industries and the low level of skills of the immigrants will impede industrial change.

In the short term a coincidence of immigration with world recession may produce higher unemployment and a sharp fall in real wages. Immigration is the dark side of the new economic relationship with China that has brought benefits in so many other ways.

The danger at the moment is that stagnation in external trade will coincide with the falling off of the construction boom going into reverse, growth in the services sector slowing sharply from recent high levels and domestic consumption being sharply constrained by rising prices and a need to reduce the trade deficit. Construction activity, which has grown very rapidly in recent years, is vulnerable and investment in plant will probably flag after two years of massive purchases of items such as aircraft.

Not likely

It is unlikely that the public sector would be able to provide much relief faced with these necessary influences. On the face of it, the Government would seem to have been following a deflationary fiscal policy during the boom years which might—though the financial secretary would be loathe to admit any aspirations to a counter cyclical policy—allow of a mildly reflationary one during recession.

Last fiscal year (1979-80) there was a budget surplus of HK$ 2.3bn following surpluses of HK$ 1.4bn and HK$ 1.2bn in the two preceeding years. For the current year a surplus of HK$ 3.4bn has been budgeted which amounts to some 3.5 per cent of GDP—a remarkable figure.

However, the surpluses are only deflationary to the extent that they are invested overseas rather than forming part of the local monetary base. Secondly, the surpluses are very directly related to the land and property boom generated by excessive credit. Capital revenue from property this year is estimated at HK$ 6bn, double the previous year and three times that of two years ago. This revenue is not only unstable in character but its size stems directly from excessive credit expansion and the overheating of the property sector.

The size of the surpluses thus created has hidden the rapid increases in public expenditure which have been taking place. Expenditure is forecast to grow 28 per cent this year to HK$ 20.9bn. Increases in the preceeding two years were 34 per cent and 31 per cent respectively. This is very rapid growth even after taking account of the trend in current price GDP in the same period, raising the ratio of expenditure to GDP to around 19 per cent from 14 per cent four years ago and an earlier peak of 17 per cent during the 1974-75 recession. The figures exclude spending, running at HK$2bn a year on the Mass Transit Railway.

The increase in Government spending has mostly been on capital account and is partly due to construction costs, which have risen much faster than prices generally. But it also stems from a desire of the Governor to press ahead with all speed with housing and other social goals which had been set back by the last recession. The Financial Secretary appears to have been under considerable pressure to make the funds available when from a strictly economic viewpoint, taking account of the strength of private sector demand, a more conservative stance might have been preferred. The Financial Secretary has admitted that this year's Budget "does tend to be on the inflationary side."

Capital spending is probably now on a plateau where it will remain for some while. Just to maintain existing levels of services, Government consumption spending in real terms will have to grow by 9 per cent a year over the next few years, which will leave little room for capital spending increases, unless the Government's share of GDP is to continue to increase.

As it is, the very rapid increases in th epast two years conjunction with the MTR construction?added to severe pressures in the construction sector. And heavy spending now has left little room for manoeuvre in the event of another recession.

However the recent revenue boom has restored some of Hong Kong's fiscal cushion which in 1977 was looking distinctly thin with free fiscal reserves down to 15 per cent of annual spending having once been as high as 64 per cent. The level of is now back up to about 30 per cent.

Meanwhile, Hong Kong's ability to borrow overseas, should it want to, has ben further enhanced by developments in China. Indeed, growing economic co-operation with China may demand that Hong Kong step up its capital spending. Massive projects such as the new airport, an oil refinery and nuclear power come to mind, perhaps involving three way co-operation between China, the Hong Kong Government and private capital both local and foreign.

Comfort

Such developments are however still at the conceptual stage. For the here and now, Hong Kong must be concerned about the steepness with which its major markets are falling into recession. It must be concerned about the destabilising effects of excessive credit, the property boom and inflation, and about the impact of continued immigration on employment and wages.

But it can feel comforted too. The entrepot trade, which now accounts for 30 per cent of total trade compared with only 20 per cent three years ago, won't go away again. Nor will the bankers and businessmen who have come to Hong Kong to try to get a foothold in China.

Hong Kong's dependence on the vulnerable export manufacturing sector has declined. Manufacturing now accounts for only 25 per cent of GDP against 30 per cent a decade ago while that of financial services has risen from 14 per cent to 21 per cent. Thirdly, despite endless worries about apparent lack of industrial diversification, manufacturing has maintained its adaptability. Garments and textiles have continued to edge up-market. And Hong Kong is well placed in that greatest of growth industries, electronics. In sum, Hong Kong's spectacular growth of the past few years has been partly due to exceptional factors. It now faces difficult trade and adjustment problems. But it does so from a broader base and in less isolated circumstances.

Philip Bowring

As border traffic to and from China increases, Hong Kong police keep a watchful eye on passengers at Lo Wu station

History unlocks the border as Britain's lease runs out

FOR THOSE with patience, history provides its own solution to many problems. China has shown both parspective and patience—not to mantion self interest—in its attitude to Hong Kong; now history is in the making as the relic of a previous age—the 99 yaar lease on Hong Koog's New Territories, which has been the corner-stona of British rule—gradually loses its significance.

A solution, of sorts, is beginning to amarge not only from the relationship betwaen Hong Kong, China and Britain, but also from relations between the City-State of Hong Kong and its hinterland, Guangdong province.

China has neevr recognised the "unequal" treaties by wbicb Britain acquired a small extremity of Guangdong. But 1997—the expiry date on Britain's lease—bas always been meaningful to the legalistic British, who need a basis in law for their continued presence. The issue must still be resolved, if only to ensure a degree of continuity and to provide some legal guarantee for investments and land purcbases by foreigners.

But what was once a tightly sealed border is becoming a permeable membrane, through which people, trade, investment increasingly pass. There are, of course, major problems on both sides in ensuring that only the desired elements get through—that China's peasant millions do not invade Hong Kong; that capitalist and consumerist ways do not weaken socialist morale in a still poverty-stricken China.

It would be wroog to see the current trend of creeping integration as a deliberate policy on tha part of China. Rather, it is a natural outcome of political developments in Cbina which have:

- Emphasised production above politics;
- Increased tha perceived role of foreign trade achieving modernisation;
- Released Chinese Nationalist sentiments, encouraging co-operstion with capitalist overseas Chinese and "compatriots" (tha jargon word for Chinese peopla from Hong Kong and Macao);
- Allowad the provinces much greater autonomy—especially Guangdong and Fujier, which bave historically close links with the overseas Chinesa and "compatriots."

Small deals

This last factor is perbaps the most important. Without tbe autonomy given to Guangdong's Provincial Governmant, the myriad small deals which are the fabric of Hong Kong—Guangdong relations could not happen, however much the centre willed them. This may be a source of trouble for the future. Conflicts of interest and purpose may arise between Guangdong and Peking, and between Guangdong and the authorities in the Shenzhen municipality, the administrative unit along the border area with Hong Kong.

Despite the changes, Hong Kong's distinctive political and administrative status must *continue. This status remains* both the condition of the colony's usefulness to China, and the outstanding issue between Hong Kong, London and Peking. But meanwhile at ground level, in Guangdong, the events by which China aims to gain the maximum returns from Hong Kong are already taking place.

There are, however, links between the political and commercial issues. Last month saw the signing of an agreement between Hong Kong and Guangdong which marks the *impending end of one of Hong* Kong's once-cherished ability to survive without Chinese water. For Guangdong, the deal is primarily a commercial proposition. Sales of water (at constant prices) will rise from HK$ 60m a year at present to over HK$ 200m by about 1992.

But for Hong Kong, the agreement means that China will account for 60 per cent of water supplies by that date, against 30 per cent at present. At its present leval of dependence, Hong Kong could survive, uncomfortably, a Chinese cut-off. At 60 per cent it could only survive a fairly brief one.

Hong Kong's new attitude to Chinesa water springs partly from its realisation that new attitudes in China have changed the relationsbip, and it is therefore better to cooperate for mutual banefit than to continne the stand-off policies favoured by China in the past. The emerging relationship is potentially much more profitable, but also potentially more difficult.

The second reason for a new water policy is simply that the cost of *alternatives is so high,* particularly as energy-costs make desalination prohibitive, other than for emergencies.

Traffic rights

The greater willingness of *Hong* Kong to accept dependence on Guangdong has limits, however. Hong Kong seems adamant that it wants its own airport, even at high cost, to maintain its traffic rights as well as its independence.

For the future, bowever, the pattern seems to be one of growiog dependence. Hong Kong has begun to sell power across the border to Shenzhen, and there is talk of building a nuclear power-station close to the border on the China side to supply both Hong Kong and the Canton metropolis. Although the buge new facility being built at Tsing Yi sbould be abla to meet Hong Kong's demand until well into the 1990s, nuclear plants bave very long lead times so talk is not just idle speculation.

Meanwhile grass-roots links are growing almost by the day. Vehicle traffic is still light but growing very rapidly. An arrangement has been reachad to allow registration of approved vehicles on both sides of the border. They carry traditional traded products such as vegetables, bring in raw materials, and take away finished products from factories in Shenzhen.

A bus service from Hong Kong to Canton via Shenzhen will start soon. Though mucb slower than the train, it opens up the possibility of furthar bus links to smaller centres in Guangdong and Fujien which are not accessible directly by train from Hong Kong.

The Hong Kong-Canton road is being improved through the replacement of two ferries by bridges. However, it is still a dirt road, and given tha lack of emphasis attached to road transport in China it seems unlikely that the much-talked-about four-lane metalled highway between the two cities will materialise for some time.

First, it will be very costly; and second, it seems unnecessary while the railway remains so under-used. Hong Kong is at present improving its section of the railway at a cost of HK$2bn. The programme, which involves electrification, *double tracking and improved* signalling, is designed to meet internal demand as population in the New Territories expands. But as it will provide a six-fold increase in capacity, it will leave plenty of scope for increasing the volume of Chinese goods railed to Hong Kong for transhipment. China is now seriously examining a project to electrify its section of the line.

The main focus of interest remains however what is happening on the border itself, at Shenzhen. Shenzhen, actually a small town just across the central section of the Hong Kong-China border, has also become the name of a new administrative unit which encompasses the border area—Shenzhen municipality. The municipality contains two industrial zones: the Shenzhen zone, near Shenzhen town, and the Shekou industrial zone, a few miles to the west.

So far the Shenzhen zone has been the main centre of activity. It is the location of some 70 small compensation trada ventures, including toys, garments and footwear. According to one estimate, these yield about HK$100m a year in "processing fees."

But tha major focus in future will be the Shekou special economic zone. Here, the China Merchants Steam Navigation Company—a Hong Kong-based, China-owned shipping company—is developing a large site for beavier industries such as container repair and steel rolling. A dock is being constricted with berths for ships up to 3,0000 tons which will give easy access to and from *Hong Kong* for heavy products.

As a special economic zone, Shekou has various attractions: joint ventures enjoy a lower tax rate, and components and machinery can be imported without duty provided the product is exported. All labour within the zone comes under one management company—aimed at recruiting above-average personnel. Undertakings also have the right to dismiss employees.

There is also a specific assurance in Shekou that items such as rent, electricity and water costs shall be no more and mostly very much less than in Hong Kong. Initially land will be availabla at only about HK$ 3 per square foot per year.

Other developments are going on, particularly to expand the tourist trade—essentially day and weekend visitors from cramped Hong Kong.

In the long term, perhaps the most significant of all Shenzhen developments is housing. Several major property davelopments, involving more than a thousand flats, have already been announced. The flats are for sale to Hong Kong people and overseas Chinese. Purcbasers are given a border pass which allows them to move freely between Hong Kong and Sbenzhen—though not to other parts of China. The flats are currently being sold for around HK$125,000 for 650 square food units —about one third the cost of similar flats in urban Hong Kong. They may be freely let or sold. Development is being carried out by share profits with the municipality.

Potentially, this development spinner for China, which is exploiting both its land and its cheap labour. It will have an impact on Hong Kong's own property market, and it has political significant because it Hong Kong's economic perimeter but not of its administrative one. If the property developscale, they will also run into key legal questions such as mortgages and security for loans. (At present purchases must be made in cash and before occupation).

Hong Kong's centre of gravity has for some time gradually been shifting northwards as the New Territories hdve been opened up. Soon China may find, if Hong Kong investors have sufficient confidence, that there is an almost inexhaustible demand for flats, at least so long as there is such a big gap between prices there and in Hong Kong. The gap will narrow if big developments continue.

Cheap land

For industry, low wage and "processing" rates, cheap land, and low to average utility costs make Shenzben an attractive looking proposition for those prepared to accept that deals must mostly be arranged on an ad hoc basis with little, if any, formal legal framework. These advantages have in many cases been offset by very low labour productivity, lack of discipline, low quality work and in some cases infuriating bureaucratic delays. But Shenzhen should be valuable as a source of low price inputs into more sophisticated Hong Kong industries, or location for low value added but land intensive businesses being priced out of Hong Kong.

The drawbacks are likely to lessen with experience and as attitudes come to equate more closely with the production and profit motives of Hong Kong. But the rest of China will continue to want to keep that kind of political contamination at arm's length. As a result there will ba a kind of class structure defining four stages on the road between capitalism and socialism—Hong Kong, Shenzhen, the rest of Guangdong, and rest of China.

P.B.

Cheung Kong (Holdings) Limited

HONG KONG'S LEADING PROPERTY DEVELOPMENT AND INVESTMENT HOLDING GROUP

1979 ANNUAL REPORT HIGHLIGHTS

- 1979 ORDINARY PROFITS AFTER TAX HK$254.1M - UP 91.6%.
- 1979 PROFITS INCLUDING EXTRAORDINARIES TOTAL HK$639M AFTER TAX.
- TOTAL DIVIDEND 55 CENTS PER SHARE - UP 53.4%.
- BONUS SHARE ISSUE ONE FOR ONE.
- 1.7 MILLION SQ.FT. OF FLOOR SPACE COMPLETED AND SOLD IN 1979.
- FURTHER 13.7 MILLION SQ.FT. OF INDUSTRIAL, COMMERCIAL, OFFICE AND RESIDENTIAL FLOOR SPACE UNDER CONSTRUCTION.
- WIDER BUSINESS BASE, ASSOCIATED COMPANIES INCLUDE:
  - CANADIAN EASTERN FINANCE LIMITED - 50% (WITH CANADIAN IMPERIAL BANK OF COMMERCE).
  - CHINA CEMENT COMPANY (HONG KONG) LIMITED - 25%: HK$ 1.1 BILLION PLANT INVESTMENT.
  - GREEN ISLAND CEMENT COMPANY, LIMITED - OVER 25%: 2 MILLION TONS P.A. CAPACITY CEMENT PLANT.
  - HONG KONG HILTON HOTEL - 100%.
  - HUTCHISON WHAMPOA LIMITED - OVER 30%.
- 1980 PROSPECTS:
  DIVIDEND WILL BE MAINTAINED AT NOT LESS THAN 55 CENTS PER SHARE FOLLOWING THE BONUS ISSUE, GIVING AN EFFECTIVE DOUBLING OF THE DIVIDEND.
- CHAIRMAN FORECASTS VERY SATISFACTORY GROWTH IN PROFITS FOR 1980.

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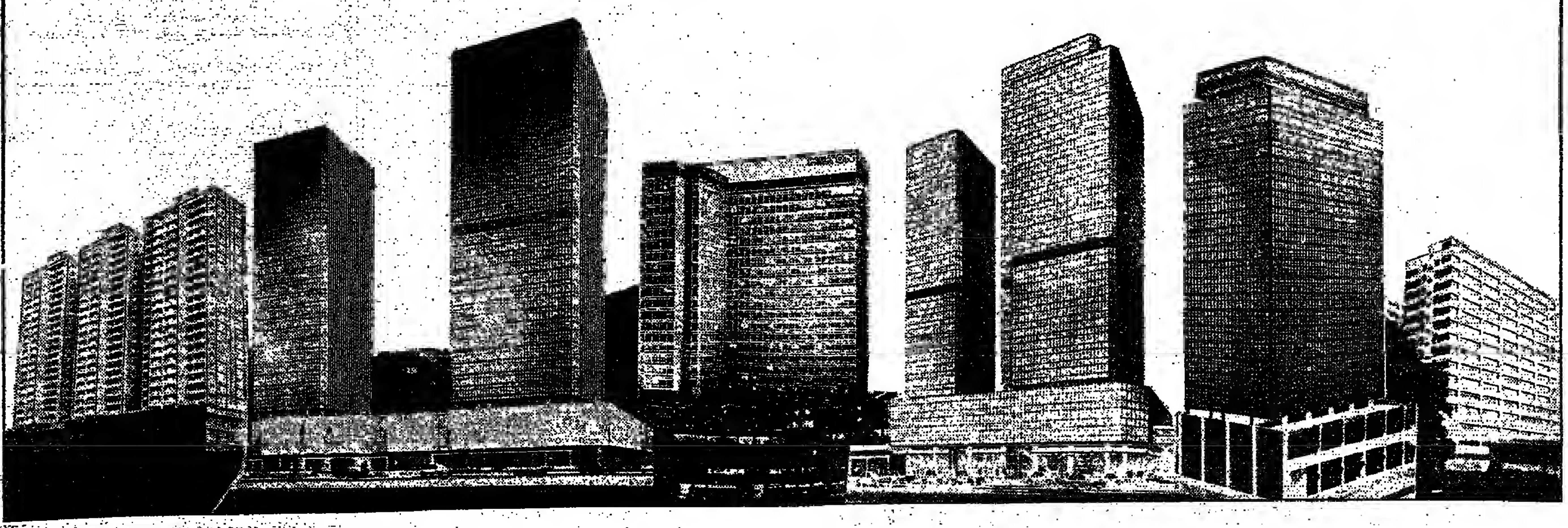

Stockbrokers wary of merger plan

BROKERS in Hong Kong's four stock exchanges have a wary look. On the one hand, the traditionally laissez-faire governing authorities have been seeking reforms. On the other, market forces are uncertain, with many analysts predicting a downward trend in the months ahead.

A change in the way stockbrokers carry on their affairs has been in the wind for a while, but it was still something of a surprise this summer when the Office of the Commissioner for Securities advanced on two fronts.

First it made it quite clear the time had come for a merger of the present four Exchanges. Then it announced it was far from happy with the current state of the takeover code.

The creation of a United Exchange has been mooted several times, but vested interests buried in the individualism of the present quartet have always blocked suggested change. But it now seems that Mr Uisdein McInnes, the Commissioner for Securities and effectively a spokesman for the Government, is determined to see unification.

In late May a working party on unification, chaired by Mr. McInnes, set out the plans for merger. It proposed the formation of a new company called the Stock Exchange of Hong Kong Ltd, whose initial subscribers would be the members of the present four Exchanges—The Far East Exchange (1979 turnover $HK 11.75bn), the Hong Kong Exchange (HK$ 5.61bn), the Kam Ngan Exchange (HK$ 8.22bn) and the Kowloon Exchange (HK$ 614.2m).

The new company will initially look for new premises to create a *single trading floor* and be responsible for accepting members. It sounds straightforward, but opposition continues.

The Government evidently sees good reasons for reform. First, it will be easier to monitor the activities of a single Exchange. This will not only make the Exchange operations more efficient, but will reduce the gambling element which is so disruptive to prices, and so damaging to international respectively.

A new member would have to show he can maintain HK$ 1m in net assets, with bank overdrafts recognised as asset backing. The hostility to this proposal *stems from the smaller* brokers, often family firms that have been almost dormant inside the smaller of the four present Exchanges.

Not unnaturally, opposition continues. According to rough estimates, about 450 brokers would be excluded from the new exchange.

Mr. McInnes is currently treating everyone with kid gloves, but there is a mailed fist inside if he needs it. He knows that the reforms are likely to slice away some of the excesses seen on the present Exchanges. He no doubt hopes he can remove the gambling fever from the exchanges and return it to its more rightful place on the racecourses of Sha Tin and Happy Valley.

Grumbling

As he told a meeting of grumbling voices soon after the proposals were announced: "the minimum capital requirement . . . is small enough so that small-to-medium brokers of long standing repute will be able to continue. If a broker cannot show a net worth of $1m perhaps he should not be in the broking business."

The merger proposals, expected to be introduced into the Hong Kong legislative council this month, provide for the Government to nominate a single person to take full charge of unification if a transition committee currently meeting and comprising two representatives from each exchange does not do the job asked of it.

Meanwhile, down in the tea shops the Chinese brokers hunched over marble tables are still reeling from Mr. McInnes' second onslaught against them—a proposal to change the colony's takeover code.

The present rules are to say the least feeble, holding that the trigger point for a full bid must come when a bidder has 50 per cent of the shares of a company.

Only two weeks ago, an example of how the present takeover rules can be exploited rocked the stock market. Hongkong Land, the colony's largest property company, unveiled a share offer intended to boost its stake in the fast-growing Hongkong and Kowloon Wharf and Godown Company from 20 per cent to 49 per cent—at a cost of around HK$3bn.

The move is widely seen as an attempted counter to shipping magnate Sir Yue-Kong Pao, who owns 30 per cent of Wharf's shares through a subsidiary company.

It illustrates the shortcomings of the takeover legislation in two ways. First, it implicitly acknowledges that Sir Y. K. Pao had won effective control of Wharf through ownership of a 30 per cent stake; and second, that by limiting their purchase plans to 49 per cent of Wharf, Hong Kong Land itself usurps control without resort to a formal bid, and without being answerable to the company's remaining shareholders.

The authorities want to move the trigger down to 30 per cent, but over *300 stockbrokers* have expressed opposition. In their ranks are powerful names like Wardley Limited, the merchant banking arm of the local Hongkong and Shanghai Banking Corporation, Sun Hung Kai Securities Limited, which is the largest local broking company, and one of the biggest overseas brokers, Vickers da Costa.

Opponents argue that the move will plunge the Securities Commissioner into vast investigations into the particularly labyrinthine webs of Chinese family crossholdings.

But there is another deft argument: that turnover in the Hong Kong markets is stimulated by rumours and the new measure would reduce the credence of them in the future.

Hong Kong, a fickle market at the best of times, is rife with rumour on any day. The tales fly particularly thick and fast on quiet days and not a few onlookers wonder whether these hints of possible bids and deals begin in the tea houses of the western district, which teem with hundreds of small investors, or whether they start on dealing room desks in the central business district tower blocks.

Mr. McInnes looks set to tread more slowly in this area than on unification. There might be a compromise, at say a 40 per cent trigger, but some would like stronger action.

Through a quiet summer the market has been moving in large uncertain swings, the Hang Seng index one day falling about 20 points, on another rising by much the same amount as the market gropes uncertainly through these rumours, United States economic recession stories and local economic statistics.

There is a feeling among market *analysts* that the trend is downward in the second half of 1980, but again all eyes are on the Government, this time on *Financial* Secretary Mr. Philip Haddon-Cave.

In the second half of this year he will be assailed by two competing desires, one a wish to wring inflation out of the economy with traditional "moral suasion" on the banks to keep interest rates high, and the other to lower interest rates to take pressure off exporters both through lower interest rate costs and a likely weakening of the local currency against its U.S. counterpart.

If, as is expected, U.S. prime rates continue to fall, he will have to make up his mind soon and it will be a difficult decision indeed in an *economy* where exporting is the very life blood.

Sun Hung Kai thinks it will be the attack on inflation that gains the upper hand. Their analysts said in a recent report:

"The Government's determination to control domestic credit expansion and inflation leads us to believe that policy will tend towards continued stringency and we expect to see U.S. interest rates fall faster than those in Hong Kong as the year progresses.

"When the growth in the monetary aggregates is curbed, however, and activity is responding to a poorer external trading environment, local rates will probably move more rapidly to lower ground.

"In market terms however, investors may by then be too preoccupied with pondering the impact of recession to rejoice over lower borrowing costs."

Jack Walton

Public sector demand spurs on inflation

SIR PHILIP HADDON-CAVE, Hong Kong's Financial Secretary, opted for *an expansionary* budget this year at a time when he has been widely expected to give it a deflationary bias.

Inflation is gaining ground in Hong Kong and Sir Philip makes no bones about the fact that it is chiefly public sector demand which is fuelling that inflation.

Yet he chose not to curb public spending — one of the few areas of the economy over which the Government has any direct control — but to let it expand rapidly. In particular, he opted for a major increase in public construction, an area which has a telling impact on wages and import levels.

In the light of inflation and of Hong Kong's repeatedly large deficit on visible trade this might have appeared rash had it not been for certain extenuating circumstances.

First, the huge influx of refugees from China and Vietnam over the past couple of years, while on the one hand rapidly boosting the population and creating pressures for increased public spending, has tended on the other hand to dampen wage inflation, particularly in the building sector.

Second, the existence of fat budgetary surpluses, arising largely from Government land sales to the booming property sector, apparently convinced the Financial Secretary to spend now before mounting inflation *erodes the value of those* surpluses.

Inflation ran out at 11.7 per cent in 1979 on the basis of the official consumer price index (CPI) and 13.3 per cent on the broader based gross domestic product (GDP) deflator, but the rate was *probably* nearer 20 per cent if the soaring cost of residential accommodation had been fully reflected. This year *inflation is running* at a rate approaching 20 per cent even on the basis of the CPI.

As the Financial Secretary had previously admitted that the public sector was the chief culprit behind the domestic demand which is fuelling inflation, and as the authorities *lack* all but the most rudimentary weapons for controlling private demand, cuts in public spending *seemed the most obvious measure* for dealing with inflation and import demand.

But they were not to materialise. The Financial Secretary said that "despite our efforts in 1979-80 to slow down the growth rate of public expenditure," the "extraordinary demands" on the capital account (inflationary cost rises which overrode cash-limit buffers) had resulted in the relative share of available resources absorbed by the public sector rising to 13.5 per cent in 1979-80.

The capital account, at HK$5.15bn ($1.04bn), was some 27 per cent overspent during the year and the current account, at HK$9.08bn, was some 9 per cent overspent, largely owing to public-sector pay rises.

Far from cutting back on capital spending in 1980-81, the Financial Secretary announced that this provision would rise by 42 per cent to HK$7.3bn. This included HK$1.8bn for the public works programme (other than new towns and housing), *HK$1.54bn* for new towns and housing, HK$441m for land acquisition, and HK$1.83bn for the Development Loan Fund for the Housing Authority.

For the moment, budgetary surpluses and reserves provide a safety net. The surplus for 1979-80 is estimated at HK$2.32bn—the highest on record in absolute terms and larger than budgeted for the third year running.

For next year (1980-81), the Financial Secretary is budgeting for an even larger surplus of HK$3.4bn on the general revenue account. This should raise "free" fiscal reserves (those not committed to contingent liabilities) to some HK$8.6bn by April next year, thus providing, the Financial Secretary said, "a most comforting degree of security in these most uncertain times."

But in virtually the same *breath* he warned that "we need to ensure that we do not get ourselves locked into a level of expenditure on capital account which *will not* be sustainable as, and when, the level of capital revenue settles down and the financing of capital expenditure is again largely dependent on the surplus on recurrent account.

The reasons why the Government is enjoying a boom in revenues—on capital and current account—just now, which is more than offsetting *over-spending, is not far* to seek.

Land sales are the prime cause. Capital revenues were 38 per cent ahead *(HK$924m)* ahead of budget in 1979-80, with premiums from land transactions rising 45 per cent *(HK$886m)*.

Revenues

Capital revenues are expected *to rise in 1980-81* by what even the Financial Secretary called the "staggering" figure of 99 per cent over estimates for the *previous* year to HK$6.63bn. Land transactions will bring in all but some of HK$400m of this revenue.

These figures *did* not sit too well in a budget which was widely expected to come firmly to grips with inflation, particularly as the price of land is held to be a significant factor in the spiralling cost of residential and commercial premises. But they explain why the Financial Secretary can bow to pressures now for more capital spending while pointing to dangers ahead if it is maintained at these boosted levels.

Recurrent revenues are also "flushing," as Sir Philip put it, which further explains the prodigious *surpluses* being achieved and budgeted for.

Recurrent revenues rose 15 per cent over estimate to HK$13.2bn in 1979-80, pushed up mainly by earnings and profits taxes from a property and banking sector which was "more buoyant than could reasonably be assumed" when the estimates were prepared.

In 1980-81, they are expected to rise a further 12 per cent over the previous *year's estimates* to H$14.8 bn, with earnings and profits taxes, which now account for nearly half of these recurrent revenues, again being the main factor.

Thus no matter how much the Government may profess to deplore the boom in bank lending, and to see *socially* undesirable aspects in the property boom, it is reaping a rich tax harvest from these twin booms.

But it is one which, as the Financial Secretary observed,

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Competition for international finance will become hotter

HONG KONG and Singapore both took steps early this year to try to ensure supremacy as Asia's leading international financial centre, and the chances are that competition between the two city-states for the laading financial rola will hot up considerably.

In the case of Hong Kong, there was an important departure in April and May, when Hong Kong banks began issuing Certificates of Deposits (CDS) denominated in U.S. dollars. This meant that the colony, already the leader in loan syndication for the Asian dollar market, was also about to challenge Singapore on the funding side.

Earlier, Singapore had announced it was admitting a firm of London-based financial lewyers to practice in the country. This move, a reversal of traditional policy in the face of strong protests by local lawyers, was a sign of the Government's determination to make sure that Hong Kong did not bave tha lucrative loan syndication business entirely to itself.

The banks and their lawyers were chiefly instrumental in working out a formula to issue dollar CDS without ettracting tha 15 per cent withholding tax which Hong Kong levies on interest. The European Asian Bank and the law firm of Deacons drew up the drafts, but throughout there were discussions with the Hong Kong authorities to try to get assurances that the formula would avoid the tax.

Issuing of the first dollar CDS came only a few months after an official report on diversification drewk attention to the shortcomings of Hong Kong as a financial centre. The report singled out the needs to keep Hong Kong money in the colony and to attract funds from abroad. A full range of short-term and medium-term financial instruments is also lacking.

Larger role

The report, produced by a committee under the chairmanship of Sir Philip Haddon-Cave, the financial secretary, urged the authorities to play a larger role in encouraging the development and standing of Hong Kong as an international financial centre.

The Government has already stepped up its intervention, moving away from the pure laissez-faire that was supposedly the hallmark of Hong Kong's success. In 1978 it liberalised banking licenses to alow 41 new banks into the colony, then declared another moratorium.

It is playing a major part in the merger of the colony's four stock exchanges into one more powerful financial institution. And it is intervening to regulate the insurance industry and ensure "continuous prudential supervision aimed at protecting policy holders."

Most of the prevailing wisdom in the colony is that it is good for Hong Kong to be an international centre for banking and finance, and that it is inevitable that the Government will have to exercise a beavier guiding hand. However, there are voices of dissent.

One scathing view to be heard in Singapore is that in some of its financial activities, Hong Kong is "little better than a gambling den." But in Hong Kong, some officials argue that the best profits come from the traditional financing of industry and trade and that the margin on being a financial centre is too small.

The head of one of the bigger banks in Hong Kong pointed out that the most profitable banks in the colony have a strong local deposit base, financing industry and trade. (This is also true in Singapore. Here, the Oversea-Chinese Banking Corporation, which bas a reputation for being conservative and concentrates on local business, has shown the best profits.)

The official report into Hong Kong's diversification outlined complementary growth of tha banks and industry. "Although in Hong Kong most bank loans to industry are technically short-term, they are generally not called in and thus, in effect, serve to provide long-term finance.

"Indeed, bad the banks here followed this precept, Hong Kong's industrialisation wonld beve been severely bampered.

"Loans were provided for working capital and also for purchasing such fixed assets as plant and machinery. As the export-oriented industries became establisbed, the banking sector in turn benefited from increasad business opportunities."

The banker thought it unlikely that many of the newcoming banks, even tbe biggest international names, would be making money in Hong Kong. Limited to a single branch, without a local affiliate or deposit base, such banks have to tap the interbank market for funds and the margin between borrowing and lending funds is small, about 1 per cent. An international "name" bank dealing with $200m a year would, therefore, make $2m, whicb is not enough to pay for the high office rents and salaries in Hong Kong.

However, the Government is convinced that Hong Kong's role as a financial centre is an important one. The diversification report commented: "Although the structure of Hong Kong's financial markets is still developing and has not yet reached the sophistication of London and New York, the emergence of Hong Kong as a major, regional, if not international, financial centre is second in importance only to its industrialisation."

As a contributor to Gross Domestic Product "financing, insurance, real estate and business services" together come to 21 per cent—less than manufecturing, 25 per cent, and wholesale and retail trade and restaurants and botels, 23 per cent.

In terms of the range of its financial services, Hong Kong is well diversified. The colony bas 115 banks and more than 100 branches including practically all of the big international names, as well as the Bank of China. It has four stock exchanges, more than 200 insurance companies, a well-developed foreign excbange market, ona of the world's big four gold markets, a commodity exchange, numerous other financial services, such as legal firms specialising in loan syndication, and geod telex, telephone and other communication facilities.

But though most of the facilities exist, in many cases they are not fully developed. While the diversification report nrged that Hong Kong should attract funds from outside the colony, some bankers noted that there is not much of a margin for Hong Kong in collecting funds unless they are used productively within tbe colony.

Rights issues

The Hong Kong stock market, for all the diversity of four excbanges, baa major weaknesses and would not be specially attractiva to a foreign investor.

Between 1974 and 1980 there were only fonr oew companies floated. Rigbts issues were not very popular. Even during the 1973 share boom, when there were 53 public offers and 48 share placements brougbt to the market, tbe flotations were not so much an attempt to tap new capital as an attempt to profit from the high valuetioo the public was then placing on corporete stock.

All in all, the diversification committee estimated that "it is doubtful whether more than 20 compenies are large enough to be considered of interest to international investors." The shares of two companies, the Hongkong and Shenghai Bank and its subsidiary the Hang Seng Bank, accounted for a fifth of the market by value at the end of 1978. The 12 largest companies accounted for 54 per cent, and the 88 companies with a capitalisation of at least HK$ 100m eccounted for 92.6 per cent of total market capitalisation, leaving the remaining 154 quoted companies to make np a mere 7.4 per cent of the market capltal.

Hong Kong's family-owned companies beve shown a marked relnctance to do anything that might lead to a loss of control. Indeed, although manufacturing has been the big growth area in the colony, less than 7 per cent of listed shares are in manufacturing concerns.

Insurance is another area where there is still a long way to go. Companies in Hong Kong bava not acted significantly as financial intermediaries in the sense of channelling medium-term or long-term cootractual savings funds as loans and investments to other businesses in Hong Kong.

There are two major reasons for this. First, many insurance concerns remit their premiums abroad; and second, tha main source of medinm- to long-term contractual funds is life insurance, whicb is not very developed in the colony since the Chinese extended family ties play the role that insurance would elsewhere.

One of the importent areas of opportunity thet Hong Kong sees is in Chine's davelopment. Financial institutions and antborities believe that the colony bas a big role to play not only as en entrepot trading centre for China, but also as an entrepot financial centre.

Japanese compenies and banks may negotiate directly with China, but for those from other countries, Hong Kong has a good opportunity of serving as the best base.

Another potentially important area is international reinsurance, wbich is why the Government is keen to establish minimum prudeotial regulations. The official committea on diversification thought that Hong Kong "bas a number of attributes which are desirable from the point of view of setting up an international reinsurance centre.

"These include a lack of current Governmeot direction of insurance trading activities and curreocy movements, a fair legal system, a well-developed range of commercial and professional services, and a broedly-based financial services sector."

Proponents of Hong Kong's role as ao internatiooal financial centre have expressed coocern about Singapore's increaaing determination to be Asie's big financial centre.

The removal of excbenge controls in Singapore and the launching of primary aod secondary markets in fixed and floating rate dollar CDS are two recent developments wbicb mey ellow Singapore to become more important in medium-term Asiao dollars, as well as in the sbort-term finance on which it hes hitherto concentrated.

Determined

The diversification committee, wbile regarding Hong Kong's financial infrastructure and its trading links as better developed than Singapore's, sounded a warning note: "Altbough Singapore bes been looked npon as more complementary than competitive in relation to Hong Kong in the operation of offshore financial business in the region, the recent trend suggests that Singapore is even more determined to pley an important role in this area than before."

The committee pointed to five areas of concern for Hong Kong: the availability of long-term finance; the need for improved cbannels of communication on matters relating to the financial services sector; inadequate statistical documentation of the fioancial services sector; the gaps in the Hong Kong money market as regards fixed-interest finance and the provision of a full range of short- and medium-term financial instruments; and the need for more effective regulation of insurance business.

There is now speculation as to whether the Government will lift the 15 per cent withbolding tax to signal its full-blooded belief in the colony's quest for the role of Asia's premier financial centre.

The diversification committee commented: "Because of its reletively low revenue yield (HK$118m in 1978-79, or less than 1 per cent of total revenue) and because of the fact that Singapore no longer has a withholdiog tax on interest, we recommend that the Government reconsider the implications of interest withbolding tax on the willingness of those with savings and investment funds to leave them in Hong Kong."

Kevin Rafferty

Budget

CONTINUED FROM PREVIOUS PAGE

it would be unwise to usa as a basis for gaaring up the long-term speoding commitment of tha economy, on capital and recurrent account.

Those expecting a redistribution of taxes, particularly as a means of dampening property speculation, received only an oblique assurance that tax cbanges did not necessarily have to be made at the time of the bndget.

What tax measures be did implement were confined to cuts in personal taxetion, wbicb it is estimated cost tha Government some HK$246m in revenuas in 1980-81, and affected about 350,000 private taxpayers.

The Financial Secretary reported that the growth rate of the GDP in real terms in 1979-80 was 11.5 per cent, against his forecast of 12 per cent, and forecast a growth of 9 per cent for 1980-81. Growth in output per capital was slowing however, because of the influx of refugees into Hongkong.

Should immigration continue at present levels, the average annual growth rate of the population would double from the 2 per cent envisaged over the next few years, with a consequent decline in per capita GDP growth, and there would be "an inevitable decline in the growth of the social waga received by the poorer sections of the community and an inevitable strain on infrastructural facilities."

However, Sir Philip admitted that the unexpectedly rapid increase in tha supply of labour becausa of immigration had helped manufacturers meet an increased demand for exports last year.

Anthony Rowley

HONG KONG VIII

Record leap in exports defies cautious growth forecasts

NOT MUCH larger than the Isle of Wight in area and with a population estimated at somewhere in the region of 5m souls, this tiny British colony last year bad a total external trade one and a balf times that of India, and greater than that of Chlna itself.

In what turned ont to be ene of the more impressive trade growth performances of the decade, 1979 saw Hong Kong continue to outgun the army of trade restrictions thrown at its biggest industry—textiles and garments. At the same time the colony further broadened lts export base as the trend towards prodnct diversification continued. Perhaps most notable of all, however, was the bighly visible jump in trade with China—a development which many believe will contribute handsomely to Hong Kong's wealth for some time to come.

Last year the colony increased its total external trade by over 38 per cent—a performance which surprised even the most bullish of Hong Kong's naturally optimistic businessmen. Exports jumped by a record HK$22hn to HK$75.9bn in 1979—a growth rate in real terms of some 19.5 per cent.

Raw materials

Imports, a major proportion of which were essential raw materials for the colony's domestic exports, increased by a roughly similar amount, from HK$63bn to HK$85.8bn—a growth in real terms of nearly 16 per cent. The HK$10.5bn deficit on the visible trade balance was effectively covered by a HK$10bn surplus on invisibles.

Despite what looked like the beginnings of recession in some of the colony's major markets, Hong Kong turned in real export growth nearly donble the average for the decade—a result that was exceeded only in 1976, when the colony rocketed out of the world recession which followed the rise in oil prices with an export growth of some 28 per cent in real terms.

This was a remarkable achievement by any standards. At the beginning of 1979, Sir Philip Haddon Cave, the colony's Financial Secretary—admittedly a man nnt noted for extravagant forecasts—had bndgeted for a real growth rate of 8 per cent in exports, less than half the actual rate.

"Even our traditonal junks have engines now" was how one trade official produly explained Hong Kong's ability tn ride out the storms of international trade and come out the other side full steam ahead. Perhaps the colony's greatest strength is this ability to react fast and flexibly to changing world trade patterns and economic conditions. Its admirers say this is a laissez faire economy that has taken more than just e chapter out of Adam Smith's book, The Wealth of Nations.

With virtually no natural resources of its own, Hong Kong has become in the space of three decades the world's largest exporter of finished garments, electronic watches, plastic toys and binoculars. When wigs were in fashion this British colony made millions of them. Nnw that they have gone out, manufacturers have switched to furs and leather goods. Perhapa most dramatic of all, in just under four years—and almost from a standing start—Hong Kong has become the world's largest exporter of electronic watches.

Japan, China and the U.S. continued to remain Hong Kong's chief source of imports last year in that order, all recording a growth of over 35 per cent. Britain did well to increase exports to Hong Kong by 46 per cent to maintain its position as the colony's sixth largest sources of imports. Britain increased the valne of its exports to Hong Kong by HK$1.4bn to HK$4.4bn in 1979 to account for just over 5 per cent of the colony's total imports.

Hong Kong's market for domestic exports continned to be dominated by the U.S., which at HK$ 18.8bn accounted for around 34 per cent of total exports. Sales to West Germany, the colony's second major outlet, grew by over 40 per cent from HK$ 4.4bn to HK$ 6.4bn in 1979. Exports to Britain, which accounted for just under 11 per cent of the colony's total exports last year, increased by a phenomenal 54 per cent from HK$ 3.9bn in 1978 to just under HK$ 6bn last year.

Along with Hong Kong's continuing ability to capitalise on shifts in world demand and the capacity of its economy on the supply side to meet increased demand for its exports, a significant factor in Hong Kong's impressive record in the past couple of years has been growing re-emergence of the colony as an entrepot. As a proportion of total exports the value of Hong Kong's re-exports increased from 19 per cent in 1970 to 24 per cent in 1978 and 26 per cent last year. Re-exports increased by a record HK$ 7bn last year to HK$ 20bn—a growth of 51 per cent.

China trade

"Last year's trading performance was exceptional. It surprised even the best of us. Perhaps the most significant jump was in the China trade. Re-exports to China alone grew by HK$1bn," says Peter Tsao, Commissioner for Trade at the Department of Trade, Industry and Customs.

Though Hong Kong's trade with China is in severe imbalance and is likely to remain so, the benefits to Hong Kong from China's new policies have already been considerable. Total trade with China was up 74 per cent last year to HK$17bn. This made it Hong Kong's third largest trading partner after the U.S. and Japan.

Domestic exports to China were np nver 600 per cent, from HK$81m in 1978 to HK$603m in 1979, while re-exports to China were np over 500 per cent from HK$214m in 1978 to HK$1.3hn last year. At the same time imports from China grew 43 per cent, from HK$10.6bn in 1978 to HK$15bn in 1979. The proportion of imports from China which were re-exported increased from 24 per cent in 1970 tn 37 per cent in 1979.

But Hong Kong's record trade growth last year is unlikely to he repeated in 1980. With the recession beginning to bite in the U.S. Hong Kong is bound to be affected, though to what extent is still not clear. In his Budget speech in March, Hong Kong's Financial Secretary Sir Philip Haddon Cave predicted a real growth rate in exports for 1980 of 8 per cent—not quite half that achieved in 1979, though only two per cent less than the average for the decade. With the expansion in China's international trade re-export growth is likely to continue at a rapid pace. But the 14 per cent real growth predicted by the Financial Secretary as still half that of the 29 per cent achieved in 1979.

Though many economists expect the recession to begin to bite later in the year, as yet there are few signs that export growth is flagging. Comparing the first four months of this year with the same period last year, exports increased 33.8 per cent to HK$19.1bn; exports plus re-exports jumped 36.7 per cent tn HK$27.44bn; and the value of re-exports soared 43.9 per cent, largely due to increased trade with China.

Imports for the first four months grew at almost the same rate as exports, climbing 36.8 per cent to HK$33.75bn from the year before. Hong Kong's trade deficit over the same period remained unchanged at 18.7 per cent, though in value terms the deficit jumped 37 per cent from HK$4.61bn in January-April 1979 to HK$6.3bn for the same period this year.

Though invisibles are likely to increase their growth this year, the visible trade deficit in the first third of 1980 is already two-thirds the size of tha record HK$9.9bn deficit notched up for the whole of last year. The situation is hardly ideal but as yet it has given little serious cause for concern.

In its latest economic report, the Hongkong and Shanghai Banking Corporation says that manufacturers have so far had little to worry about. But the bank expects industrial growth in the second half to be hit by further trade restrictions in major overseas markets, increases in oil prices, endemic domestic inflation and worldwide economic uncertainty. Textile exports have already shown signs of slnwing down, though clothing exports have, so far performed well in spite of tighter import controls.

Richard Cowper

HONG KONG'S OVERALL MERCHANDISE TRADE

	Valne/Yearly change percentage										Percentage
	1975		1976		1977		1978		1979		change '79/'74
IMPORTS	33,472	− 1.9	43,293	+29.3	48,701	+12.5	63,056	+29.5	85,837	+36.1	+151.6
DOMESTIC EXPORTS	22,859	− 0.2	32,629	+42.7	35,004	+ 7.3	40,711	+16.3	55,912	+37.3	+114.0
RE-EXPORTS	6,973	− 2.1	3,928	+28.0	9,829	+10.1	13,197	+34.3	20,022	+51.7	+181.0
TOTAL EXPORTS	29,832	− 0.7	41,557	+39.3	44,833	+ 7.9	53,908	+20.2	75,934	+40.9	+152.8
TRADE BALANCE	3,640	−10.9	1,736	−52.3	3,868	+122.8	9,148	+136.5	9,903	+ 8.3	+142.4

Entrepot role makes a comeback

IN THE 1950s, Hong Knng began to discover and develop manufacturing industry which pusbed its traditional role as an entrepot trading centre into the background. But in the past few years the traditional activity has been making a comeback, and has been the fastest-growing area of Hong Kong's trade.

A leap of almost 52 per cent in the value of re-exports last year, to a total of HK$20bn, raised them to 26 per cent of total exports. This was the highest proportion recorded since 1961.

But growth of re-exports in the previnus few years had been rapid, if not as startling as in 1979. In 1975, the colony's re-exports were just under HK$7bn, out of total exports nf nearly HK$30bn. In the following three years, re-exports rose by 28 per cent, 10.1 per cent and 34.3 per cent respectively.

But statistics tell only a fraction of the story behind Hong Kong's re-emergence as a booming entrepot centre. And interviews with exporters and officials reveal fascinating but still only partial details.

Tha wbnle story would no doubt cause embarrassment and awkward questions, especially in some neighbouring and regional countries. In most cases perhaps, Hong Kong's favoured position as an entrepot reflects its superior commnnications, its financial and insurance facilities, its shipping services and its all-ronnd, speedy and efficieot management.

But in some instances, the advantage of using Hong Kong is to evade or sidestep local tax requirements or foreign exchange regulations. In others, the Hong Kong Chinese, with their wide regional connections may be able to make more money by manipnlating the local customs.

Closer examination of tha statistics on re-exports shows at least four distinct types, according to the countries of origin of the goods.

The biggest contribution to re-exports comes from Chinese goods. In 1979, re-exports of such gooda totalled HK$5.66bn, against total imports from China of HK$15.1bn. The chief contributor to these re-exports was made-up articles, wholly or chiefly of textile materials, which tolalled HK$726m, and second on the list was crude vegetable material. Of the top ten items among re-exports originating in China, nine were of textile, fabrics or articlea of clothing, together worth HK$2.25bn.

It ia easy to understand bow Hong Kong picks up a large part of China's trade: financing, packaging, shipping and even documentation are easier in the Colony than in China. Links between Hong Kong and China bave grown, and China's abilities to bandle large shipments of goods ia mnch less than Hong Kong's. The Colony is nne of the biggest ports in the world and bas excellent air communications. It offers in fact just the sort of springboard and communications link with the rest of the world that China itself lacks.

But the question is, whether Hnng Kong textiles go out labelled as made in China in an attempt to beat qnota restrictiona on Hong Kong goods. Manufacturers and officials are quick to dany this, saying that Hong Kong goods bave moved up market as quality has improved and labour become more expensive in the colony. Officials also say that anyone caught trying to evade rules of origin would be quickly prosecuted as the colony has its reputation to uphnld.

Electronic

Re-exports originating in Japan, the second largest group at HK$3.4bn in 1979, are very different from the Chinese re-exports. Electronic goods and machinery dominate the list, aod the top 10 items include watcbes and clocks, telecommunicatioos equipment, camera and photographic parts, motorcycles and cars.

Some Hong Kong traders claim that packing and shipping from Hong Kong is so efficient that it pays Japanese manufacturers to aend goods to the colony fnr final packing and distribution. This may be so, but it is also interesting that the biggest customer for Japanese goods re-exported through Hong Kong is Indonesia. Indonesia took Japanese goods worth HK$692m in 1979, followed by Singapore with HK$431m worth.

There are also advantages for Japanese companies in exporting through Hong Kong. Setting up a company in the colony may help a Japanese group to avoid the complications of Tokyo foreign exchange regulations. For example, if a scooter worth $1,000 is made in Japan and ready for sale in Jakarta for say $1,500, then it may pay to dn the deal through a Hong Kong subsidiary, remit the $1,000 to Japan, and keep the $500 in Hong Kong in free foreign exchange. Low tax-rates in the colony may give an additional advantage.

Goods originating in the U.S. are the third largest nf Hong Kong's re-exports. Pearls, precious and semi-precious stones are the leading category, accounting for HK$ 409m of the HK$ 2.29bn total of U.S. goods passing through Hong Kong last year.

Many of thoae stones found their way back to the U.S. The leading item of re-export to the U.S. consisted of pearls, precious and semi-precious stones, valued at HK$ 428m—and the main country of origin of these stones was the U.S.

Traders say that what happens is that stones are sent to Hong Kong for sorting and valuation, then those not required by the local industry are shipped back.

Other re-exports originating in the U.S. inclnde photographic equipment and medicinal and pharmaceutical products. American exports passing through the colony are distributed evenly to countries neighbouring Hong Kong, so the colony is being used as a regional distribution base for China, Japan, Korea and South East Asia.

The most interesting climber in the list of exporting countries supplying goods to Hong Kong for re-export is Taiwan. In 1978, Taiwan shipped goods worth HK$ 402m, but last year the value of the goods leapt to nearly HK$ 900m. One reason for the sudden spurt in re-exports originating in Taiwan was that the island's container port was badly damaged during a typhoon. Another is that Taiwanese goods have started to go to mainland China in increasing quantities. According to the Hong Kong statistics, HK$ 106.5m-worth of Taiwanese goods went to China in 1979, in sharp contrast to the HK$ 0.2m total listed for 1978.

Penalties

Officially, Taiwan has banned trade with China and businessmen face heavy penalties if they are caught, even if they are using Hnng Kong as an entrepot. In reality, there has always been trade from China to Taiwan via Hong Kong worth some HK$250m a year. But this is mainly vegetables which cannot he easily branded or spotted as to country of origin.

Tha response of the Hong Kong authorities to the re-emergence of the colony as an entrepot has a touch of ambivalence about it. Some officials are qnick to point out that the value added of re-exports is marginal and that therefore undue attention should not be given to them at the expense of Hong Kong's original exports. Bnt increasingly, official comment appears to suggest that the entrepot role can add to the colony's overall financial status and should be eocouraged.

Kevin Rafferty

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Bankers debate Government's role in influencing economy

THE BANKING INDUSTRY in Hong Kong has been at the centre of a major debate about the role of the Goverment in trying to influence the macro economic aitnation.

This is not an academic or purely theoretical debate. Indeed, like all debates in Hong Kong, over whether chenge is needed, it springs entirely from real altuation needing immediate attention.

The issue has been tbe rate of growth of money supply and credit, and their relationship to interest rate levels.

Essentially, the Government haa been trying to use moral persuasion to achieve high interest rates to try to stem inflation and domestic demand but has, so far, abjured the use of direct intervention. Supporters claim it has had some success in influencing the banks. Critics claim its impact bas been too little, too late.

Concern sbout tbe inflationary impact of very rapid increases in domestic credit has, however, had ona very direct effect on tbe environment in whicb banks in Hong Kong do business.

In August last year, the Government temporarily reimposed a moratorium on the grant of new banking licence. It said than that this was to allow a re-examination of the criteria for granting bsnking licences. But the driving force behind the freeze was a concern that aggressive lending by newly-admitted banks waa fuelling excessive credit both directly and by forcing established banks to defend their market sbare by being similarly generous.

Banks established before the freeze will be bsppy to see it continne, but it contradicts the Government's broader sim of encouraging—by not impeding—the development of finsncial and other services in Hong Kong. It remains to be seen when the freeze is lifted.

There had been an almost complete moratorium on new banking licences between a banking crisis in 1965 and two years ago when the Government decided to allow in banks with assets of U.S.$ 3bn or more from countries which offered reciprocal arrangements to Hong Kong banks, or would help in trade development.

Between then and the new freeze, 41 licences were issued, bringing tbe total number of banks in Hong Kong to 115. In most cases the banks granted licences already had a presence through a deposit-taking company or representative office, or both, but preferred the higher status and greater flexibility that a brancb could offer.

They also hoped that domestic Hong Kong business, though not their main reason for being there, would at least pay the rent.

Despite both the issue of new licences, and the imposition of liquidity requirements on deposit-taking companies, there was no let up in the number of DTCs, which rose from 239 in January, 1979, to 272 a year later. There was also an increase in bank representative offices, which now number 115.

Campaign

The Government first publicly expressed anxiety about the rate of growth of credit back in October, 1978, and actively campaigned for increases in interest rates. Its entbusiasm for a credit squeeze waned after a run at the end of 1978 on Sun Hung Kai Finance, one of the largest indigenous finance companies and an associate of Paribas. Nonetheless, in the 1979 Budget it tried to reduce the impact of its own budget surpluses on the bank's deposit base by treating them as short-term inter-bank clsims requiring liquid asset backing.

However, neither thia nor successive increases in interest rates, which took the prime lending rate to 14.5 per cent in August, 1979, apparently did much to stem lending.

In fact, with the economy growing faster than expected, fuelled by export demand and an *influx of migrants* from China, the credit increases were not as inflationary as they would otherwise have been. Nevertheless, the Government continued to make noises to the effect that direct controls might be necessary if the banks did not show more restraint.

It is still not clear how seriously direct controls, either in the form of a "corset" or changes in the definition of eligible liquid assets, were considered, or to what extent this wss just talk aimed at frigbtening the banks is not clear.

The question of money and credit became murky because of tha unreliability of the evidence.

At the end of lsst year the Government introduced new definitions of M1 and M2 to net out the transactions between banks and deposit-taking companies—figures for the latter having only just become available.

The central area of Hong Kong Island, home of the business and banking community Glyn Genin

These showed that M1 had grown only 4 per cent in the previous 12 months snd M2 by only 13 per cent, way below old deficition. That looked like a victory for those who had all along clsimed thst the great money aupply debate was a lot of fuss about nothing.

On the nther hand, there was no doubt the M1 and M2 changes could not diaguise tbe fsct that M3 (whicb includes deposit-taking companies) rose by 29 per cent.

Nor could tbre be any doubt that total credit to the economy—losns snd advances of both banks and deposit-taking companies—grew by 34 per cent.

Tbe Government defended the situstion by saying tbst M3 growth wss only slightly abead of nominal GDP growth. However, critics said this was a foolish argument because it wss tbe money growth which wss fuelling tbe higb rstes of nominal GDP growth reflected in double digit inflation.

A quite separate argument slso developed over who wss to blame for credit increases.

At one point a Government official singled out foreign banks, saying their lending had been growing much faster than the domestic bsnks, who had proved more responsive to Government calls for restraint.

The foreign bsnks hit back by clsiming the statistics were misleading because msny loans msde to Hong Kong customers were, in fact, for use outside Hong Kong. This srgument appesred rather dubious when a Government survey showed that only about 10 per cent of loans were used outside Hong Kong. Nor dies it take account of the reverse situstion—losns msde outside Hong Kong but used inside it.

What was not in doubt, ss bank annusl reports for 1979 have shown, was s very sharp increase in total assets for many locsl banks not matched by lending growth.

Inter-bank liabilities more than doubled during 1979 from HK$7.7bn to HK$17.6bn. Bank liabilities to deposit taking companies grew even more rapidly—from HK$6.9bn to HK$20.0bn.

Two trends were evident. High liquidity made it very difficult for the local banks to squeeze the foreign banks—which mostly have inadequate local deposit bases—in the inter-bank msrket.

This phenomenon had been widespread the previous year when inter-baok rates were often higher than prime rate, an uncomfortable situation for the foreigners which led to howls of protest—most publicly from Citibank—and demands that the Government should intervene and bresk the local cartel.

Credit growth

Recently it has been the local banks who have been complaining. They say that by responding to the Government's appeal to cut credit growth they have lost market share and seen their profits held down as they have kept funds in the inter-bank market rather than lending them out.

Foreigo banks have slso been more aggressive in bypsssing the inter-bsnk market in their search for funds. There has been a rapid growth of the dollar CD issues. And Citibsnk broke new ground witb issue of small denomination bankers' acceptances which for technical (and probably temporary) reasons hsve tbe advsntage of being free of interest tax.

Not that the local bsnks can complsin about profitability. Most reported increases of 30 per cent to 40 per cent last year and probably more if sccount is taken of incressed transfers to inner reserves.

The second noticeable trend on the banking scene over the past year has been the increased role of deposit-taking companies. Their status seems to have been enhanced since they have been subjected to prudential supervision, and faced liquidity requirements. Being outside the scope of the interest rste agreement of the Excbange Banks' Associstion they bave been sble to bid competitively for funds. They bsve thus been of particulsr use to foreign banks with insdequate deposit bases.

Their deposits (other than from banks) increased dramstically from HK$10.4bn at end-1978 to HK$24.5bn a yesr later and HK$30.5bn by March, 1980. At the same time, the net smounts owed in them by banks in Hong Kong rose from HK$0.5bn at end 1978 to HK$8.6bn a year later.

The Government remains aware that it does have some responsibility for ensuring a stable domestic monetary environment. The question is how to achieve that in tbe absence of the mecbanisms available in other countries.

The answer it seems to bave come up with is to increase its own powers of persuasion. The Financial Secretary, Sir Philip Haddon-Cave, has proposed that the Exchange Banks' Association *be given statutory* incorporation, that all banks be required to join it, and be required to abide by tbe decisions of its interest rate committee, whose composition would be broadened. He alao wants to see the deposit-taking companiea acquire a aimilar organisation.

In his February Budget speecb, Sir Philip stated clearly that it was "questionable wbether the terms of the present interest rate agreement, together with the absence of any form of control over tha rates that may be offered by deposit-taking companies, are auited to present day needs and circumstances."

Clearly, what ia in atore is a more formal cartel arrangement over which the Government would bave more influence than at present.

But the Government clearly faces a dilemms on the degree of ita responsibility in tbe monetary field. A similar dilemma seems to face it with deposit-tsking companies. Wben DTCs were first formally permitted they were only allowed to accept deposits of upwards of HK$50,000 on the grounds that persons with assets of that smount should be free to lose it.

However, the Government bas now submitted the DTCs to direct prudential supervision, imposing liquidity and other requirements similar to banks. Thus it is taking some responsibility for protecting depositors against failure, such as that of the Hong Kong DTC subsidisry of the Australian-based Nugsn Hand group.

The Nugan Hand affair has also raised the question of whether bank representative offices should be supervised. Following the fsilure of Nugan Hsnd Bank of Cayman Islands to repay some Hong Kong depositors who had made deposits through the Hong Kong representative office the Banking Commissioner said he would be requiring details of the operations of representative offices.

The Nugan Hand affair bas not damaged Hong Kong. But it bas raised questions about the need for supervision and the relationship between onshore and offshore, whether the distinction between onsbore and offshore activity has mucb relevance in Hong Kong's situation and in the age of tbe telex.

There was nothing very unusual about Nugan Hand collecting depoaits for placement offshore. Large banks, local and foreign, in Hong Kong *routinely offer* deposit facilities in tax-free locationa such as Vila, New Hebrides, including in Hong Kong dollars. As the bookwork is often done in Hong Kong there is no inconvenience for the cuatomer.

The Government will tighten up on reporting requirements in respect of these activities, at least in relation to Hong Kong incorporated banks and DTC's in accordance with international agreements reached under the auspices of the Bsnk for International Settlements.

No change

But there will be no cbange in policy. Legislation is also likely later this year generally to tighten up Hong Kong's banking Ordnsnce to make it more auited to tha computer and telex age.

Minimum capital requirements will be increased, and parbaps made to relate directly to deposits. Banks will be required to consolidate subsidiaries for supervisory purposes (tbey have to already for companies Act purposes).

Hong Kong's Banking Commissioner also now acknowledges—to use bis own words—tbst "the supervision of overseaa brancbes of a deposit-taking institution rests with the appropriate authoritiea in its bome country on the grounds that tbe sssets and liabilities of a hranch sre not legally distinguishable from the assets and liabilities of the institution as a whole."

The Goveroment will, ss a result, acquire powers to obtain information about tbe overseas activities of locally incorporated banks and DTCs.

This is not a significsnt depsrture from Hong Kong's hsnds-off approach. But it is a recognition that freedoms also carry responsibilities if Hong Kong is to continue its progress towards being a mature financial centre.

P.B.

A recent report urged the Government to adopt a more positive stance towards industrial diversification. It represents a strong challenge to Hong Kong's tradition of laissez-faire policy, as Anthony Rowley reports.

Industry: a clear case for action

HONG KONG'S financial and services sectors may have prospered under a policy of benign neglect by the Goveroment but the official hands-off attitude towards manufacturing industry has caused this sector to decline relative to the rest of the economy, and to become narrowly hased and unsophisticated.

This was the picture that emerged from the report of the official Advisory Committee on Diversification published last November.

During its two years of deliberations, the 16-man committee, chaired by Sir Philip Haddon-Cave, Financial Secretary, looked at the need for official support in diversifying various sectors of Hong Kong's economy. But nowhere did it make the need for official action more clear cut than in the case of *manufacturing industry.*

"We have found that the serious inadequacy of industrial support facilities and of technical back-up facilities, as well as the absence of a programme of applied research have limited the speed with which manufacturers heve been able to diversify," said the committee in *its report.*

The report has been formally adopted by the Government hut not yet acted upon to any significant extent.

The need for industrial diversification was evident enough from the committee's findings. Not only did Hong Kong's manufacturing sector decline during the 1970s io its relative contribution to gross domestic product—while finance and other services grew in relative as well as absolute size—but it also became increasingly narrow-based.

This can be deduced from export figures which show that the share of three main product groups—textiles and clothing, electronic products and toys and plastics—rose from 57.3 per cent in 1961 to 67.1 per cent in 1978.

As relatively few products are retained for domestic consumption, what is true of exports is broadly true of manufacturing output as a whole.

Given tha relatively small size of Hong Kong's economy and the "severe constraints" particularly the high costs and the limited supply of industrial land, under which the colony's manufacturers have had to operate, the teodeocy to specialise on a limited range of product groups was inevitable, the committee concluded.

But the dangers of narrow specialisation are becoming increasingly apparent. Hoog Kong is baving a tough battle with developed countries to maintain access to their markets for textiles and garments and what looks like being a much more restrictive Multi-Fibre Arrangemeot is being drawn up to regulate international trade in such items.

Electronic consumer prodncts too are becoming increasingly subject to protectionism, while a number of leading toy makers in the West have gooe to the wall in recent years, something which is certain to increase pressure for job protection against imports.

Support

Hong Kong's tendency to become increasingly dependent upoo a few manufactured prodncts cootrasts quite strongly with the experience of the three other newly industrialising countries in Asia—South Korea, Taiwan and Singapore.

The committee viaited only one of these three competitor countries—South Korea—but it noted that all three had provided numerous institutional support facilities to their industries.

Unlike Hong Kong, the other newly industrialising countries in the region, and even those which have not yet aspired to their ranks, such as Malaysia, Thailand and Indooesia, all have a conscious strategy for industrial development.

Until recently, the Hong Kong Government refused to acknowledge a need for industrial planning until it was virtually pushed into doing so by pressure from Chinese manufacturers and from the swelling ranks of Chinesa endowed with secondary and tertiary education looking for a more sophisticated economy in which to find employment.

The Goveroment will be forced to adopt more positive strategies towards industrial diversification if it is going to meet its own growth targets between now and 1982.

These targets, set both by the Financial Secretary and by Sir Murray MacLehose, the Governor, aim for economic growth of at least 9 per cent a year in real terms over the next three years.

Donbting that growth of this magnitude could he achieved from further expansion of the tertiary sector (which inclodes the areas of financial services and tourism on which Hong Kong ia significantly dependent), the committee urged the Government to take various measures to stimulate industrial development.

Only by more investment in plant and machinery could industries bope to diversify ioto new product areas end the level of real wages be raised, it argued.

To make this possible, the committee called for an increase in the supply of industrial land—something which is almost totally depeodent upon the rate at which the Government is nrepared to anction Crown land or to make available new industrial estates.

It also urged the Government to keep in mind the "possible need for an industrial development bank" in Hong Kong in the future, and to introduce additional schemes for industrial training, to be financed from public funds.

"What Hong Kong's manufacturing industries need is an adequate range of industrial support facilities and technical beck-up services, as well as a programme of applied research.

"Although virtually all manufacturing firms in Hong Kong are likely to make use of such facilitias and services, the extensive use of metals by manufacturers, the relatively nnder developed state of the metalworking and metal-finishing industries, and the growing importance of the electronics industry suggest that these industriea should he prime targets for the initial provisions of industrial support facilities and technical back-up services.

Need underlined

"The need is underlined by the fact that Hoog Kong's competitors have already provided, to a greater or lesser degree, such facilities for their domestic industries," the committee said, again taking its cue from South Korea, Taiwan and Singapore.

Industrial support facilities should include a "technical and technology information service provided by one or more organisations whose primary function would be to carry out research and development work on behalf of manufacturing industries.

"We envisage the establishment of laboratories and workshops, initially to provide services in snpport of the metal-working and metal-finishing industries but capable later of expansion to support other industries.

The committee further called for a "technology transfer agency" working in close consultation with the existing Trade, Industry and Customs Department and to be concerned particularly with the promotion of industrial investment in Hong Kong by overseas companles.

This agency would identify sources of technological development, select packages suitable for Hong Kong, help manufacturers negotiate on licensing, patents and know bow, and advise manufacturers on how to assimilate technology.

There was little point however in Hong Kong seeking to move into higher technology industries unless it could assnre adequate quality control to keep defects and failures to a minimum, the committee said.

Here again, this was not an improvement likely to appear spontaneously and there was scope for official provision of certification and standards services as well as the introduction of "quality assurance" through Hong Kong's tertiary education institutions and industrial organisations.

Sucb existing organisations include the Hong Kong Polytechnic, the Federation of Hong Kong Industries, the Chinese Manufacturers Association of Hong Kong and the Hong Kong Productivity Centre.

The committee saw the Productivity Centre as the "organisation focus" for some of the services it recommended—providing soma and co-ordinating others.

But it also saw a "clear need" for establishing a standing organisation with a planning, monitoring and advisory role. "We recommend the appointment of a standing Industrial Development Board with the Financial Secretary as chairman and with a membership which should include representatives of the Government, manufacturing industries and organisations providing industrial support facilities."

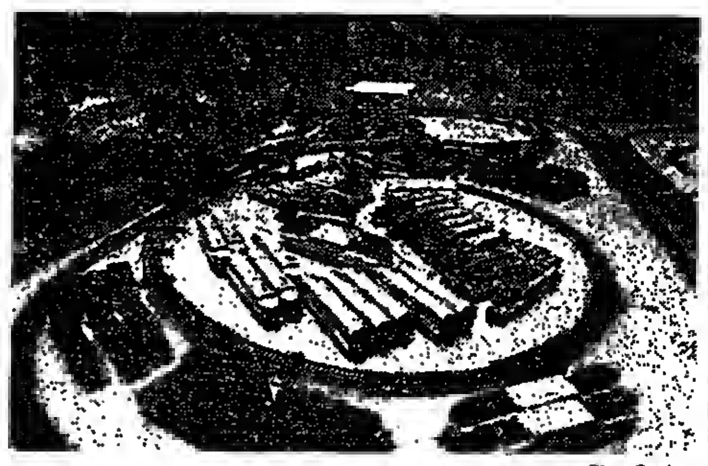
All this is a far cry from the present situation and it remains to be seen how many, if any, of the committee's recommendations the Government will adopt.

Hong Kong is, first and foremost, a laissez-faire economy, aod planning is still anathema to many of the expatriate officials at the top. But the diversification committee, which included a number of prominent Chinese businessmen, was arguably more in tune with the feelings of Hong Kong's majority Chinese community.

It said: "While it is true that the economies of Singapore, South Korea, and Taiwan are managed by their Governments to a much greater extent than is the case in Hong Kong, we nevertheless consider this external experience is relevant to Hong Kong's circumstances."

Tougher times for the toy-makers

Toys/Plastics



Glyn Genin

Toy trains—shunting into recession?

HONG KONG'S plastics and toy making industries have had a tougher time than most of the colony's manufacturing sectors over the last 15 months—mainly because of the revolution in Iran and the subsequent world oil crisis.

Plastics materials prices in Hong Kong tend to be low compared to other parts of the world. Polymers come in from the U.S., Europe, Japan, Taiwan and Singapore and the colony is often used as a virtual dumping ground. This means cheap raw materials for the toys, electronics and houseware industries—but last spring the picture changed dramatically.

The revolution in Iran, oil shortages—and fears of shortages—led to a series of steep increases in plastics prices throughout the world, including Hong Kong. Plastics consumer industries started to stockpile polymer against further price rises, a particularly expensive operatioo because of high costs of land and of warehousing in the colony. Some companies, toymaking concerns among them, now find themselves with high stocks at a time when prices are falling sharply.

Others have already beeo forced out of business by the twin evils of high raw material prices and high stock costs. Official statistics show that between December 1978 and March last year the number of plastics fabrication factories in the colony fell from 4,515 to 4,435 and a total of 23 plastic toymaking concerns closed. Yet this three month period was before the worst of the post-Iran plastics price increases.

Order books

Toymakers are now facing the impact of recession, with many manufacturers' orders books well down on last year. Some expect to be operating at only 70 per cent of capacity this month and they fear they may be down to 50 per cent of capacity by September—yet normally their plants are running at 100 per cent.

Pessimism is not a notable attribute among most Hong Koog businessmen and toymakers are confidently predicting an upsurge of orders in the autumn. The closest some of them come to British-style gloom is to complain that they will be forced to air-freight their products to the U.S. and Europe if they are to arrive in time for Christmas and this will mean a cut in profit margins.

But they admit that the recession is hitting them—particularly smaller companies who design their own toys rather than making to order for, say, a U.S.-based group which runs big TV promotions.

Yet they reckon people will go on buying toys for their children, no matter how fierce the recession or how many other new coosumer goods they have foregone purchasing. They are looking for a 10 per cent to 20 per cent increase in salea value—as compared to around 50 per cent last year—and a 5 per cent to 10 per cent growth in volume which bas been rising by 10 to 20 per ceot over the past few years.

Hong Kong is now importing much of its plastics materials from the U.S. American polymer prices are currently lower than those in most other parts of the world because the U.S. Government is holding down the price of oil and gas—from wbich plastics are made—to below normal, international levels.

Hong Kong only has one local plastics material producer—the U.S.-based Dow which opened a polystyrene plant in the colony in 1976. Dow opened the plant primarily to serve the Hong Kong market and it now haa around 50 per cent of the colony's annual sales of about 120,000 tonnes of polystyrene.

Fear of the impact which the dumping of polystyrene in the colony might have on its business has made Dow wary of increasing its market share. But the company is thinking of expanding its 70,000 tonnes a year plant on Tsing Yi island—15 per cent of production is exported. The group says the market for plastics has grown at around 20 per cent a year over the last five years and unless the recession is far deeper and lasts far longer than expected, it is thought that demand for toys and electronics will continue to grow strongly.

Dow says it needs to plan soon for production in 1982 to 1985. There seems a reasonable chance that it will decide to expand the plant—but the likely ahape of the economic downturn will clearly be an important factor in making the choice. It says demand will be the key—and that means watching its customer industries including the toymakers.

Sue Cameron

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Spinning into an exports tangle

Textiles

CLOTHING AND textile industries in Hong Kong continue to grow—despite the restrictions imposed on them under the Multi-Fibre Arrangement and increasingly fierce competition from other Far Eastern producers.

In 1979 the colony was the world's second largest exporter of clothing — baving been ousted from first place by Italy. The value of its clothing exports last year was 28 per cent higher than in 1978, although in real terms the increase was a far more modest 5 per cent. The major markets remained the U.S., which accounted for 35.8 per cent of Hong Kong's £2.2bn worth of garment exports, West Germany with a 17.9 per cent share and the UK with 14 per cent.

Textile exports — notably woven cotton fabrics, textile yarn and woven man-made fabrics—also rose last year. Volumes increased by 15 per cent while the value of textile exports went up by 42 per cent in money terms to £446m.

Yet Hong Kong's clothing and textile manufacturers are finding themselves under growing pressure on a number of fronts. Their opportunities for growth are being squeezed by agreements made under the Multi-Fibre Arrangement — MFA: competing countries such as Taiwan and South Korea are eating into their markets, particularly in the field of cheap, bulk clothing where Hong Kong has traditionally been strong; and they face rising costs, falling world demand because of the economic downturn in the West plus what some of them see as a serious labour shortage.

Perhaps the chief cause of concern—certainly the one that rouses most indignation — is the working of the MFA. Most of the Hong Kong's clothing and textile producers recognise that the import quotas imposed by the U.S. and the European Economic Community countries offer them a stable and guaranteed market with some in-built element of growth.

But they believe the character of the MFA has been slowly changed over the past three or year years so that it increasingly operates to the disadvantage of manufacturers in the colony. Eight weeks ago, Miss Lydia Dunn, of the Swire group, speaking in Brussels to a conference on international trade in clothing and textiles, claimed there had been "a systematic erosion of the spirit and the letter of the MFA." It was being transformed into "an instrument of discrimination practised by the developed countries against the developing countries."

Miss Dunn listed some of the Hong Kong manufacturers' chief complaints against the working of the MFA:

- Importing countries can impose restrictions on textile and clothing suppliers on the grounds of actual or threatened disruption to their domestic markets. Hong Kong producers claim they often act without giving adequate proof of disruption.
- Importing nations introduce restrictions against a number of supplying countries on the grounds of market disruption. They fail to make a case for restraint against each one individually—as is required under the MFA.
- European countries and the U.S. restrict imports from developing nations but not from other industrialised states. Hong Kong *claims* that the latter do far greater damage to the importing countries' domestic markets.
- The importing nations are cutting back the quotas for more advanced developing countries —such as Hong Kong—so as to give the less developed states more access to their markets. The practice was described by Miss Dunn as "charity to developing countries by developing countries."
- The importing nations are sometimes by-passing the terms of the MFA altogether by making tough bilateral agreements under its "reasonable departures" clause.

Hong Kong's clothing and textile producers are particularly concerned about attempts to give some of their quota entitlements to poorer countries—often the very nations whose lower labour costs enable them to offer the stiffest competition to the colony.

Loopholes

But attempts are being made to overcome the growing limitations of the MFA. Every loophole in the restrictions imposed by the importing, industrialised countries is exploited to the full—such as "borrowing" from the quotas for less successful lines to improve the ceilings on best-selling items. Yet the room for manoeuvre here is being constantly cut back.

From the point of view of the longer term, Hong Kong is trying to develop new, unrestricted markets such as South America and the Middle East. It appears to be having some success in terms of export growth rates. Last year the colony's exports to Saudi Arabia, for example—nearly all clothing—were £20.3m as compared to £15.2m in 1978. Exports to Saudi in the first quarter of this year were £16m.

Hong Kong is also trying to beat such rivals as South Korea—the colony's textile and garments industries are shedding few tears over the current political problems there—by continuing its attempts to upgrade its products. Greater emphasis is being placed on the standard of the clothes produced and on design.

Ranges of designer-label clothes—including Yves St. Laurent, Christian Dior, Fiorucci, Gloria Vanderbilt and Pierre Cardin—are now being made in Hong Kong and there are hopes in some quarters that the colony will eventually develop its own international fashion "look."

But some manufacturers attach far less importance to the design of their clothes and fabrics than others. There are some who claim that the rage for designer-label clothes will pass in much the same way as any other fashion. They also claim that Hong Kong will never be able to go much beyond the upper-middle range of the European and U.S. clothing markets. They believe that Western haute couture will continue to be Western born and bred.

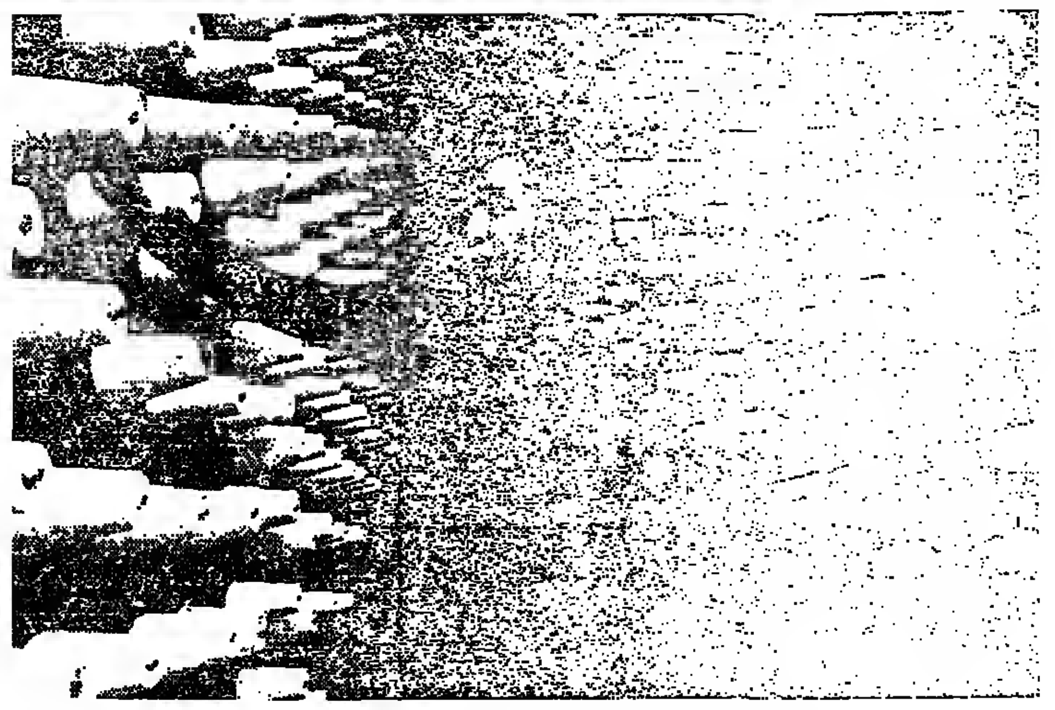
One of the complaints resulting from the move upmarket concerns the apparent unwillingness of British fabrics producers —particularly makers of woollen cloth—to sell more to Hong Kong. But UK manufacturers say there are not enough big customers in the colony to make it worth their while—in terms of prices or volumes.

A more pressing worry for some of Hong Kong's textile and clothing producers is the difficulty of attracting and retaining an adequate labour force. Despite higher wages, improved working conditions and a variety of incentive schemes, there are companies which say their employees still desert them for other industries —especially electronics where the hours tend to be shorter.

The job advertisements that are posted up in the halls and entrances of some of the multi-factory blocks are often quickly pasted over by other companies in the same building offering even better rewards for those who will come and join them. One enterprising employer found a way round this problem by having his job advertisement posters printed on cloth instead of paper, so making it harder for others to paste their own ads on top.

The full impact of recession in the West—already beginning to be felt in Hong Kong—should quickly [illegible] shortage. [illegible] textile and clothing manufacturers [illegible] [illegible]

[illegible]



Following the thread: a textile worker at Hong Kong [illegible]

Thinking small: workers assemble printed computer circuit boards

A switch in time ...

Electronics

ELECTRONICS COMPANIES in Hong Kong sem confident that the current recession will not bite too deeply into business — particularly in the watches and games sectors.

The electronics industry is the colony's second biggest foreign exchange earner and last year the value of exports rose by 50 per cent of £.062bn. Radios are still the most important electronics export items, followed by watches. The colony is the largest exporter of watches, in terms of volume, in the world, although it ranks after Switzerland and Japan in value terms.

Growth is expected to continue this year but at a lower rate because of the economic downturn. Yet the forecast is for an increase of around 30 per cent in sales value and perhaps 5 per cent to 10 per cent in volume for the electronics industry as a whole, while watches are thought likely to rise by 20 per cent to 30 per cent in sales volume and value.

Manufacturers say firmly that it will be the bigger items — such as cars — that wil bear the brunt of cuts in consumer spending in the U.S., West Germany and the UK—Hong Kong's three largest electronics export markets. They believe electronic watches and games will escape comparatively lightly — partly because they are comparatively cheap, partly because of the novelty value that can be given to them and partly because people wil go on buying presents at Christmas time even in a recession.

They admit that radios are likely to feel the pinch. Most Westerners already have a radio and there is little to tempt them into buying a new model when money and jobs are short. Some Hong Kong electronics companies also concede that orders for the peak Christmas season are coming in much later this year from the U.S. and Europe than is usual. Customers are being cautious and are taking great care not to overstock. Yet there is optimism that the orders will come in—albeit tardily.

Hong Kong has built up its electronics industry in just over 20 years and the colony is still dependent on other countries, notably Japan and the U.S., for imports of wafers and for technological innovation. This reliance on others made itself felt last year when there was a world shortage of chips.

But as yet there is no real likelihood of the colony setting up a major research programme of its own. There are no companies large enough and profitable enough to fund basic research and even if there were, there is a shortage of local people with sufficient training and expertise.

What manufacturers in the colony are doing is to obtain licences from some of the major U.S. and Japan-based companies. Hong Kong has also been doing its best to attract foreign investment in electronics and the effort is paying off. Three companies—Elcap Electronics, RCL Semiconductors and Tele-Art—are setting up silicon wafer fabrication plants on the Taipo industrial estate. All three are U.S.-based.

Adaptability

Meanwhile, Hong Kong companies are relying on their adaptability and on their flair for meeting *changes in consumer demand* to beat the recession and to fight off competition from poorer countries such as Taiwan and from technologically advanced ones such as Japan. Producers have been trying to move upmarket in the watches sector, but they are finding that buyers are demanding even lower prices. There are fears that the only way to satisfy this demand for cheapnes would be to sacrifice quality —a policy that would give their Swiss and Japanese competitors an even greater edge and which is therefore being resisted.

Electronic games manufacturers are still enjoying a boom in hand-held games although they say sales are now beginning to fall off. Fashions in electronic games can change remarkably swiftly—as producers of TV games discovered a few years ago. Companies with licences to make Western games are probably in a stronger position than those which design their own.

This is partly because of easier marketing in Europe or the U.S., but also because the more sophisticated games retain their novelty longer. Some of the leading manufacturers in Hong Kong are now looking forward to second and third generation hand-held games.

Some electronics companies—like those producing textiles and clothing—are complaining of a shortage of labour. They say that while they do not expect to be unduly hard hit by the recession, the current difficulties in attracting and retaining employees will make it that much harder to meet late orders from the West this winter.

S.C.

Colony seeks to benefit from China's oil

CHINA HAS now started planning her long-awaited offshore oil exploration programme—and there are high hopes in Hong Kong that the colony will soon be reaping the benefits of a new oil boom.

There are those who confidently *expect* Hong Kong to be providing a comprehensive back-up service for the development of China's offshore reserves within the next *few* years. They claim the colony is capable of covering all aspects of the oil industry's needs, from the building of rigs to the provision of housing for expatriate workers and their families.

Others—including some of the major Western oil companies—believe the euphoria may be largely premature. They point out that China *may* insist on storage depots and repair yards being on Chinese soil and that Hong Kong itself is suffering from a severe land shortage.

Yet Hong Kong's hawks were doubtless heartened by China's formal announcement nearly two weeks ago of plans for co-operating with foreign oil companies in the development of her energy resources. The Chinese said the seismic survey work that Western oil majors have been carrying out for some years in seven offshore blocks was now completed. They added that the geological data suggested the existence fo substantial oil and gas reserves.

Estimates of China's oil reserves have been put as high as 100bn barrels, though more cautious forecasts reckons that 30bn barrels would be nearer the mark, certainly in terms of economically recoverable crude. But even the lower figure will still put China in the big league as an oil producing country—the latest available figures put her existing proven reserves at 18bn barrels.

During the coming year, China is expected to ask foreign oil companies to put in bids for exploration and production contracts. The terms of the contracts have yet to be decided and some stiff bargaining is expected before they are finally agreed.

The major Western oil groups—most of those involved in initial survey work have been U.S.-based—are looking for additional supplies of crude. They are not interested in merely being paid to bring out the oil and hand it all over to the Chinese.

They are aware that China may not feel a too-rapid development policy is in her interests and they also know that China's domestic demand for oil and oil products is increasing—particularly in the transport and agriculture sectors—in line with a predicted annual GNP growth rate of about 7 per cent.

Strong position

But the Western companies believe that China's need for foreign exchange and for foreign expertise—the waters of the offshore blocks are up to 600 feet deep—will put them in a strong negotiating position.

They are certainly hoping for better terms than those that have already been signed with the Japanese for exploration and development in the Bohai Gulf. The deal is described as being highly favourable to China. But China's statement at the end of last month confirmed that future contracts would not necessarily be on the same lines as the one agreed with the Japanese.

Even allowing for protracted negotiations, the stage seems set for exploratory drilling to start in earnest during the next two to three years. This means Hong Kong will have to *move* fairly fast if it wants to put in a serious bid to become a major base for the offshore industry.

There are a number of possible ways in which the colony could service China's development of oil and gas reserves. These include: building oil rigs; repair and maintenance; providing storage depots for the pipes, chemicals and other equipment that will be used; communications; and providing homes and other services for oilmen and their families.

But some of these opportunities for Hong Kong's participation in China's oil development look far more promising than others. For example, the colony already has a modern and efficient communications network — far better than anything China herself can offer at present. On the other hand, Hong Kong is desperately short of land and this could ultimately put an end to hopes of rig-building and storage bases, which would both require considerable space.

Those who are determined that the colony should be used for building rigs and storing equipment insist that the problems can be *overcome*. They point out that Hong Kong is far and away the best deep-water port in the South China Seas and probably the *only port* in the area that can handle the very large, third-generation container ships.

They also claim that none of the nearby Chinese ports would be able to cope with the bigger ships that will be required to bring in the heftier pieces of equipment the oil industry will need. They admit it will not be easy—or cheap—to provide sufficient land with deep-water access for an oil base. But they stress that it could be done, following the usual Hong Kong methods of cutting into a hillside and so extending the acreage of flat ground.

Their views were given considerable support by the report of the Hong Kong Advisory Committee on Diversification, which *suggested* that the Government should "plan actively for the provision of a site for a logistics support base."

The Government is now looking into the possibilities—and the drawbacks—of providing a site for a land base. But no decision has yet been made as to whether it should follow the recommendation of the report.

Land in Hong Kong is normally sold by auction, on the assumption that the highest bidder will ensure he makes the best economic use of it. But the Government does have power to designate land-use and this could lead to a lower premium being paid by—for example—one of the major oil companies.

Yet the overall cost of flattening a mountainside would still be extremely high and the extra space made available might well be more profitably used by other manufacturing industries. If the Government did clear a site, it could then find itself under pressure from local companies which wanted to use it themselves.

One idea being considered is that a site should be provided, but instead of being developed by the Government or sold to the oil industry, a special corporation should be set up to *run it*. *Part* of the corporation's job would be to turn the land over to other uses when the oil era ends.

Key factor

The attitude of China is a key factor in the question of where major land bases for the oil industry will be set up. The Chinese are keen to play as big a part as possible in the development of their own oil and gas resources. And a number of senior people in the major oil companies believe the Chinese will insist on storage facilities being sited on their side of the border. Some of the oil companies are also sceptical about the likelihood of rigs being built in Hong Kong.

They believe Hong Kong stands a greater chance of sharing in the repair and maintenance work that will have to be done. It is thought the colony's repair and dockyard companies should be able to provide the required degree of expertise. The oil majors also look favourably on Hong Kong as a communications centre, but of them are less happy about using it as a base for their personnel.

It is frequently assumed in Hong Kong itself that the oilmen and their families will have to live in Hong Kong—partly because of its proximity to China and even more because of the comparatively low standard of *living* in China.

But the cost of land and of living in Hong Kong may well count against the colony. Most of those involved will be Americans and within the oil industry there is now talk of basing people in Hawaii or Guam and flying them out to the rigs.

One senior U.S. oil company executive estimated that it would probably cost around $800 a month to rent a four-bedroomed house with a garden in Houston, Texas. But in Hong *Kong*, accommodation for a family in a reasonable area would cost an average of $6,000 a month.

The development of Chinese offshore oil—and her onshore reserves at a later date—will clearly provide some spin-off gains for Hong Kong. There is a great deal of money to be made by the peripheral industries that back up oil-producing companies and the colony is infused with the entrepreneurial spirit.

But Hong Kong—which will have to compete with Singapore for some of the business on offer—may be overestimating the advantages that an oil boom will bring to the colony.

S.C.

A gas burn-off from an exploratory well in the South China Sea

Coal-fired power answers rising oil costs

THE COLONY is turning increasingly to coal in an attempt to beat rising world oil prices while meeting its rapid increase in demand for power.

Two new power stations are currently under construction and both will be coal-fired, although they will be capable of using oil as an alternative fuel. A third has been proposed and is now in the final planning stages. The decision as to whether to go ahead with it will be taken next year.

Some of the coal to be used in the new stations is expected to come from China. Co-operation *between* Hong Kong and the People's Republic over energy supplies is strong and is likely to be extended in the future. The colony is already supplying China with 1m units of electricity a day and there are proposals for increasing the supply.

Hong Kong's China Light and Power Company is also helping the Chinese to carry out a feasibility study into the building of a nuclear power station. The first results from the study are *expected* this autumn. Four sites in the republic's Guangdon Province are thought to be under consideration — all of them close to the Hong Kong border.

Joint ventures

If the nuclear station goes ahead—Sir Laurence Kadoorie, chairman of China Light, believes there is a 30 to 40 per cent chance that it will — it is thought likely that some of the power it produces will be sent across to Hong Kong.

The energy field seems to be particularly rich in opportunities for joint ventures between Hong Kong and China. Such projects have political significance for the colony because they can indicate China's willingness to allow Hong Kong to continue under "British management" after the lease on the New Territories runs out at the end of 1997. The Chinese do not recognise the lease and it is thought most unlikely that they will be prepared to re-negotiate it in any formal way.

But in the meantime, Hong Kong is still dependent on oil. Total demand is estimated to be around 140,000 barrels a day and it is expected to remain fairly static over the next few years — largely because of the power stations switching to coal.

Oil for the colony is imported, mainly from the refineries in Singapore. Hong Kong has no refinery of its own, although the Government is discussing the possibility of building one with British Petroleum. Here again, there is a chance that such a refinery could use supplies of crude from offshore China as its raw material. The alternative—some say the more likely one—would be for a refinery to use Middle Eastern crude as do those in Singapore.

The colony's power companies—China Light and Hong Kong Electric — have been major buyers of oil products in the past, but this will change dramatically as they og over to using coal. Hong Kong *Electric* is building what is planned to be a coal-fired station on Lama island and China Light is constructing another at Castle Peak in the New Territories.

The first of four 350MW units at the Castle Peak A station, which is being built with British equipment from GEC and long term financing from the UK, is due to come into operation in March 1982. China Light estimates that by that date, 7 per cent of its total fuel will be *coal and* 93 per cent *oil*. But by 1989, when all the sets will be in operation, the proportion is expected to be 71 per cent coal and 29 per cent oil.

The switch in fuels i staking place against a background of rapidly rising demand for power. Last year, China Light's sales rose—in terms of KW hours—by 12.5 per cent and an average growth rate of around 9 per cent is forecast for the greater part of the coming decade. The average growth in demand in most developing countries is thought to be nearer 4 per cent a year.

But the company admits t hat with over 80 *per cent* of its volume sales going to power stations, the changeover to coal will have considerable impact. It points out, however, that there will be no significant drop in its sales until 1985, and it adds that the prospect of further crude shortages world-wide means it will be happy to have "extra" oil available for other markets.

Coal for China Light's Castle Peak station will come from Australia, South Africa and Canada as well as from China. Each of the four units will need 700,000 tonnes a year and by 1981 it is expected that the colony will be importing between 7m and 8m tonnes a year.

Transport problem

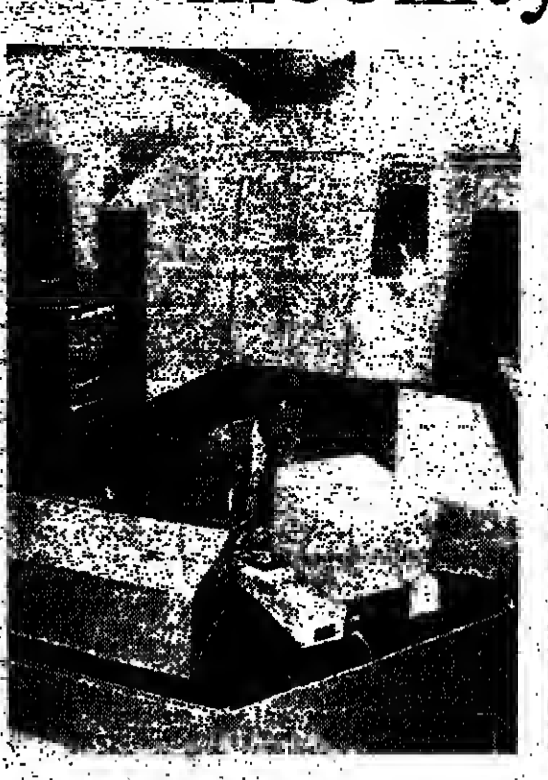
China Light is hoping that China will supply up to 33 per cent of its coal requirements, while Australia may provide up to 50 per cent. But the Chinese are having difficulty arranging for the transport of coal to the colony. They have said *they* are planning to improve their rolling stock, but in the shorter term, it remains to be seen how much they will be able to supply to Hong Kong.

China Light's decision on whether to go ahead with the building of a B station at Castle Peak depends on the length and depth of the world recession that is already making itself felt in the colony. The company says it is now experiencing a 1 per cent drop in demand from industry — manufacturing accounts for about 45 per cent of its demand, domestic use for 20 per cent and service industries, including the mass transit, for some 35 per cent.

China Light reckons that in a year's *time* the recession will either have passed or it will have reached its nadir. In either case the decision on B station should be clear cut. But the company stresses that the station will be built eventualy. Even if the economic downturn is far fiercer than expected, plans for construction will merely be deferred, not abandoned.

S.C.

Mass transit system solves only one mobility problem



Ashley Ashwood

A Redifon simulator, used to train drivers for the Mass Transit Railway

HONG KONG'S mass transit railway was officially opened in February, seven weeks ahead of schedule and within the HK$5.8bn budget. It was an occasion for rejoicing, but it was only the start of a solution to Hong Kong's massive transport problems.

In the next few weeks a decision [illegible] to be taken on [illegible] of railway building [illegible] to extend the mass [illegible] or to construct a separate light railway for Hong Kong Island.

After that the colonial authorities will have to address themselves to the perennial but growing problem of congestion on the roads, to the question of capacity on the cross-harbour tunnel between Hong Kong Island and Kowloon, to the need for transport links to the new towns rapidly springing up, to demands for better road connections with China, and to the issue of whether to build a new international airport on Lantau Island.

Norman Thompson, the chairman of the MTR, in response to a question about whether the railway would ever pay for itself, confidently said that Hong Kong is a transport operator's heaven. But for a transport planner, it may seem more like hell.

The small territory and the narrow corridors between granite and mountainside mean that there is little physical room to build. And the rapid increase in population, swollen by the numbers coming from China, means that there is an ever growing demand for more and better services.

Nearly 7m journeys a day are made on Hong Kong's public transport alone. And with only 1,117 kilometres of road in the colony, many roads are congested at most times of the day, and especially jammed at morning and evening office opening and closing times.

Big developer

Construction of a largely underground MTR was an important part of the search for a solution to the shortage of land for transport. It has the advantage that shops, offices, houses and flats can be built on top and especially around stations, and the MTR Corporation has quickly become the third largest property developer in Hong Kong.

Technically, the system can be counted a huge success, not least because it was built within the time and the budget allocated. The first 8 kilometres of the MTR was opened to the public in October, 1979; the next 7.6 kilometres was working in time for the Chinese New Year; and the initial system was officially opened by Princess Alexandra on February 12 this year.

Mr. Thompson estimates that the cost of this modified initial system, which stretches from Kwun Tong in east Kowloon, down Nathan Road and under the harbour to the commercial centre of Hong Kong, will be HK$5.65bn. Work is going on on another 10.5 kilometre link, from Suen Wan in west Kowloon, which will join the initial system at Prince Edward on Nathan Road. This stretch will be ready by the end of 1982 and will cost HK$4.1bn.

Of the 15 stations in the initial system, 12 are underground and three are elevated. They have been built through a variety of geological formations, including heavily eroded granite, solid rock and reclaimed land.

In cases Hong Kong's high water table called for tunnelling inside a cocoon of compressed air. The stations are among the largest in the world, normally about 230 metres long and reaching 300 metres at Chater in central Hong Kong.

The system is built to cope with 60,000 people an hour past any point and to handle more than a million journeys a day which is the estimate of the number of passengers who will use the initial system by the mid-1980s.

Carriages can accommodate 327 passengers standing and 48 sitting on the stainless steel seats. At the start, all trains consisted of four cars, but they are being increased to six and will eventually reach eight cars.

The MTR has one of the world's most advanced computer control and train operations in the world, with fail-safe control of all routine train movements to prevent the danger of collisions. The trains run automatically though they have a driver to give the starting signal in the stations. Intervals between the trains is three to eight minutes, but the system allows for a gap of as little as two minutes.

Plastic tickets

Ticket collecting is also automatic, using a plastic, magnetically encoded ticket, the size of a *credit card, which* gives information as to its value and date, time and place of issue.

The system has had its teething difficulties. These include one serious breakdown, frequent overshooting of station platforms by half a carriage because of faults in the software, and in some places foul smells, believed to be because the opening of the rock in construction may have exposed fungi trapped there to fresh oxygen supplies.

The railway also has its critics, some of whom question whether it will ever pay for itself. Mr. Thompson is confident *that it will* and *will* be making operational profits by 1984. Others say that the number of people using the mass transit is lower than expected.

Mr. Eric Black, the Managing Director of the MTR, responds that the number of passengers carried is up to target—400,000 daily.

In the early days the MTR carried a lot of passengers who were going just for the ride to see what the new railway was like. During the Chinese New Year, when the line was open round the clock for one day, 963,000 people were carried in the 24 hour period.

Mr. Thompson and *Mr. Black* point out that the MTR is already one of the most densely-populated transport systems per kilometre. The average of 400,000 people a day on 16 kilometres of track compares with 1.5m passengers carried every day on the London Underground, but on 357 kilometres of track.

"We are still very much on our learning curve," said Mr. Black. "The total number of passengers carried is up to the forecast and I expect that numbers will begin to rise." Other Hong Kong transport systems have sometimes started slowly and then usage risen way above expectations.

The cross-harbour tunnel was at 40 per cent of capacity soon after being opened: now it is working at 110 per cent of capacity with long queues at peak periods, and thought is being given to new cross-harbour road links.

Other complaints about the MTR concern access to the system. When the full MTR system is operational, it is claimed, 40 per cent of all Hong Kong homes and 50 per cent of work places will be within 10 minutes walk of a station.

Potential passengers who would come in from outlying areas of Kowloon or the New Territories grumble that there is no car parking space at the stations. And the people on Hong Kong Island are still waiting to know when and where their rail line will run: the debate over which railway system should be built is still going on.

Mr. Black comments: "The question of car parking at stations is a question for the Government and not for the Mass Transit Corporation." But he adds that after discussions between the Corporation and the bus companies, bus services from the densely-populated areas to MTR stations have been improved, so there is better access by public transport.

The question over what system should run on Hong Kong island may be settled this month. Basically the choice is between an extension of the MTR or a light rail transit system rather like a big tramway which would run on the surface.

Because of the higher costs of tunnelling, a light rail system could run the entire length of Hong Kong's north shore, whereas the MTR extension would be much shorter and even more costly at more than HK$4bn. Mr. Black explained that MTR debts would peak in 1984 at HK$12.2bn "and we don't wish to exceed this." So a full underground system for the whole of the north shore is ruled out.

Too much

But the advantages which a light railway has in cost have to be offset against the life of the line. Experts estimate that by the 1990s, Hong Kong island would have to have an underground system as the traffic became too much for a light railway.

One possible way round all of the problems would be for the Government to invest now in a complete MTR system and to meet the extra capital costs beyond the HK$12.2bn ceiling from its reserve funds, which have been mounting up steadily against the possible "rainy day" in the future.

But this would infringe the principle that the MTR must pay its own way, and the reserves are a touchy question, which does not seem to have been openly discussed.

What has been actively debated is how long Hong Kong can go on allowing a free run to the private motor car. Suggestions of higher road licences or a restricted inner zone like that of Singapore have come increasingly under discussion. Motor vehicle registrations have topped 250,000 and are rising by more than 25,000 a year.

In any other society new and improved roads might be the answer, but in Hong Kong, which is already the most heavily populated metropolitan area in the world, there are limits to the number of flyovers that can be built one on top of the other.

The 1979 Government white paper titled "Keeping Hong Kong Moving" suggested a three-part policy: improvements to the road network, expansion and improvements in public transport and the more economical use of roads.

There are limits in all areas, but tere is some scope for better road use. One simple example of wasteful road use is that a good deal of Hong Kong's food produce arrives and is unloaded near the western markets in Hong Kong, is then taken several kilometres by road to cold storage at North Point, and is then transported back by road to western markets for sale.

The scope for road improvements has to be set against the Government's overall financial commitments which have led to delaying several times of import road projects. And in the end the physical restrictions of the island and the lack of room for manoeuvre impose their own limitations.

The ideal way forward would be an improvement in public transport. With the growth of new towns such as *Sha Tin*, Tuen Mun and Yuen Long, some of which may before long have populations of nearly 1m people, the most sensible course would seem to be to plan public transport so that people can have another ideal than car ownership.

But Hong Kong will continue to need better roads and more speeding on them, and not least will need improved transport communications with China. These will help to smooth the path of the colony's business links with China.

The Kowloon-Canton railway needs modernising and upgrading to take container traffic. But even if China does ship more goods by rail container, the Government is still considering new road links between Hong Kong and China.

This is a task for the future as the two governments will have to sit down and agree on the alignments, the volumes of traffic and when the roads will be built.

Kevin Rafferty

Glyn Genin

The Kowloon end of the road tunnel which links Kowloon with Hong Kong island

Decision on new airport within two years

ANY ONE of the million or so people living in Kowloon, in the *flight path to Kaitak Airport*, will be convinced that the need for a new airport is obvious and a decision is long overdue.

In fact, the Hong Kong Government is now committed to a decision by 1982, perhaps the most important decision facing it this decade. A new airport would open up tremendous new economic and industrial *possibilities*, but it raises political problems which strike at the heart of Hong Kong's future.

The shortcomings of Kaitak Airport were first acknowledged in 1970, just 12 years after it opened. Mr Brian Keep, Director of Civil Aviation, was succinct: "The problem is simple: Kaitak is an airport in the middle of a city."

The headaches this involved may have seemed manageable when the airport terminal opened to cope with about 500 passengers an hour: by 1979, the airport was dealing with 5,000 passengers an hour. It handles 1,000 flights a week *from 30 scheduled* and 23 non-scheduled carriers and links Hong Kong with 64 major cities around the world.

The airport causes considerable environmental problems. It it difficult to reach through heavy city traffic, height restrictions of between 50 and 60 feet close to the airport have put severe limit*ations on residential* and industrial development: and the curved approach over Chinese airspace presents landing difficulties to pilots.

Glyn Genin

A Lockheed Super TriStar of Cathay Pacific at Hong Kong International Airport

Abandoned

In 1973, the Government authorised a preliminary study on *the siting* of a new airport but this was abandoned in 1974 when OPEC first raised oil prices and prompted a sharp fall in air travel.

Ideas on a new airport were presented again in 1979 when it became apparent that, on current passenger traffic trends, the present volume of 6.5m passengers a year would have swollen to 15m by 1990. Kaitak's capacity of 12m is likely to be met by 1985.

The volume of cargo being handled through Hong Kong is also rising rapidly and last year reached 250,000 tonnes. The Civil Aviation Authority says that by 1985, if no action has been taken and the present growth trends continue, there will be no option but to trade-off passenger traffic against cargo—an invidious problem for any airline to solve.

A new airport is likely to take at least seven years to build, which means the Government is reconciled to severe congestion problems for at least three years during *the middle of the* decade.

It seems certain that no decision will be taken until 1982, adding still further to the possible congestion. A single reason explains the delay: uncertainty over the growth in air traffic in view of tremendous oil price increases recently.

Higher fuel prices might force up the price of air tickets and reduce tourist travel. It might also slow economic growth in the region—a decline in trade would trim business travel, and cargo traffic. The authorities have also noted the trend towards wide-bodied jets, which allow more passengers to be carried without increasing flight frequency.

Many experts remain confident that air traffic will continue to grow at the present rate. They cite growing affluence among the peoples of Asia, and the strong desire of overseas Chinese in particular to visit families elsewhere in the region.

There is also growing evidence that the introduction of wide-bodied aircraft has not enabled airline companies to cut flight schedules. The Government prefers caution, however, since a new airport will cost about U.S.$ 1bn.

If a new airport is to be built, it will almost certainly be at Cheklapkok, a small island to the north of Lantau island, and virtually equidistant from Hong Kong's central business district, Kowloon, the New Territories, the Portuguese colony of Macao, and China's three new export processing zones in the south of Guangdong Province—Shenzhen, Jiuhai and Shikou.

Numerous other options have been examined and rejected, most recently in a consultant's report presented to the Director of Civil Aviation two months ago.

Liberation

Cheklapkok would "liberate" the Kaitak area for new development (the Government has ruled out the possibility of running two airports, not only because of the nightmares of air traffic control it would raise, but also because of the revenue likely to be raised from the development of Kaitak).

It also boasts the singular virtue of being, by all accounts, free of environmental problems, air approaches would be by sea, there would be no need for curfew restrictions and it would be an all-weather airport, not vulnerable to closure like Kaitak when severe typhoons blow up, or when fog descends.

Objections from the Chinese are possible. They have hinted that they would prefer a new international airport on Chinese soil, perhaps just over the border from Hong Kong, which would serve both the Colony and Canton. The Macao authorities have *also* spoken of building an international airport—an idea which is unlikely to materialise in the view of the Hong Kong Government's deliberations.

On China's plans for an airport, a correspondent for the Far Eastern Economic Review recently observed: "To date, apparently, no official approaches have been made to the Foreign Office (in London) on the subject, and the Foreign Office says Hong Kong's proposals for Cheklapkok are not yet advanced enough for presentation to the Chinese.

"Until the Chinese show some of their Hong Kong cards to the British, it is unlikely that the authorities (in Hong Kong) will even begin to consider sharing airport facilities across the border."

A precedent of sharing facilities has been set at Basle, where passengers use the same airport, with its immigration and customs procedures, whether they are travelling into Switzerland or France.

Reservations are based not least on the fact that China does not share with either France or Switzerland a recent history of stability which would make it a practicable, or even tolerable bedfellow, in such a joint venture.

The first phase of Cheklapkok would involve a single runway and would cover about 800 hectares (compared with 220 hectares at Kaitak).

The Hong Kong Government is thought to be poised to commission a comprehensive consultants' study at an estimated cost of HK$ 150m (£13.05m). This involves HK$ 25m for a detailed airport design and HK$ 100m for land and ocean surveys around Cheklapkok. The seabed is known to be covered with loose mud and will need to be dredged. The remaining HK$ 25m is for various associated costs, so far unspecified.

The new airport is expected to have a capacity of at least 15m passengers a year. Provision for a second runway has been made, which would raise capacity to 25m.

Closely linked with plans for the new airport are plans for the development of Lantao island, the largest in the colony. This would involve a bridge linking Lantao to West Kowloon on the mainland across two small islands—Tsingyi and Mawan. It would also involve substantial industrial and residential development on the island, perhaps including a light rail public transport system.

If the airport plan is shelved, the Government seems likely to develop Lantao anyway. The colony is otherwise likely to exhaust all its available residential land by 1985 and urgently needs to relieve the *congestion of manufacturing* industry close to the urban centre of Kowloon.

A major problem over the new airport has always been that of how it might be financed. According to a recent report in the Far Eastern Economic Review: "The decision does not hang on need; but on financing. According to the Foreign Office, a two-runway airport would take between seven and 10 years to complete and cost around U.S.$ 1.4bn. The question is whether the Hong Kong Government will be able to guarantee creditors that the loan will be amortised after 1997."

Implicit here is that the Government will not be able to raise the cash needed for the airport *unless the issue of Hong* Kong's lease (which expires in 1997) is satisfactorily resolved. This is simply because the sum to be raised is so large, that it could not possibly be paid off before 1997.

Government officials argue that it is not essential to resolve the lease issue. They claim that a large proportion of the cost of developing Lantao and the airport could be covered from the proceeds from the development of Kaitak once the present airport has been closed. *They also argue that* a large income will be generated from the sale of building and development rights on Lantao once it is opened up.

David Dodwell

Booming tourist industry could be hit by rising cost of travel

HONG KONG'S tourist industry has been riding on the crest of a wave during the past two years, with tourist spending up by 25 per cent a year, and hotels full to bursting. But there are worries over the horizon, mainly over the *effect* rising fuel prices will have on the price of an air ticket. It could mean the end of the boom

More than 2.2m tourists passed through Hong Kong in 1979—about 10 per cent more than the previous year. But their spending went up by 25 per cent, taking total receipts up to HK$6.38bn. Tourist revenue has doubled since 1975.

The value of tourism to the economy has been in dispute. Tourist Authority executive director Mr. John Pain calculates that tourism contributes 7 per cent of *GNP*, and 11-12 per cent of exports. But the report of the Government committee on diversification, published late last year, argued that goods and services consumed by tourists had a high import content, suggesting that domestic income generated was less than implied by the raw figures.

Whatever the arguments, the figures have to be treated with care. Hong Kong's tourist price index rose 10 per cent in 1978 and almost 19 per cent last year, so the real growth in tourist spending has been in single figures.

Around 23 per cent of Hong Kong's visitors come from Japan, and a further 30 per cent come from neighbouring countries in South-East Asia. About 14 per cent come from the United States, with under 8 per cent from Australia and New Zealand and a tiny 4 per cent from the UK. Taiwan, usually a major source of tourism, has slumped in importance over the past year, as the authorities have cut back hard on visa approvals.

Highest spenders

The Japanese stay for the shortest average period—about 2.6 days—but are the colony's highest spenders on a *per diem* basis, at almost HK$1,200 a day. Overall, visitors average a stay in Hong Kong of 3.63 days, and spend a total of HK$2,6[illegible].

The Tourist Authority warned that these figures were very approximate, and probably underestimated, since spending data are gleaned from spot interviews with tourists as they depart the colony. Many *visitors are wary of detailing* how much they spent, a Tourist Authority spokesman said, often because they fear information is being gleaned for tax reasons.

Just why tourists come to Hong Kong, depends on the country from which *they* come. The Japanese spend almost 80 per cent of their cash in the shops, on tax-free electronic goods, cheap textiles and the many other consumer products for which the colony is renowned. The average tourist spends just 63 per cent of his money this way, with a larger proportion normally going on hotel bills and eating out.

For many Japanese, a visit to Hong Kong will be linked to a stopover in the neighbouring Portuguese colony of Macao, famous for its gambling and night life.

For visitors from Australia and New Zealand, who stay longer than any other group—an average of 4.8 days—Hong Kong tends to be one stage of a wider tour around South-East Asia. In the past it was seen as a taste of China, but now that China has opened up to tourism, it is a stepping stone on the way in and then on the way out again.

In the short term, there seems to be no doubt that Hong Kong stands to gain *from* tourism into China. Not only is the colony the perfect stepping stone, but, as one commentator noted: "China is still very spartain, and so it can be a great relief to come out and relax in the bright lights and easy-going atmosphere of Hong Kong."

Mr. Pain sounded a note of caution, however: "Hong Kong is a destination in its own right and must remain so.

"If we only provide access to China, then within five years we will just be a passageway. People will stay for a night, maybe two.

"We have to acknowledge nevertheless that it is a new attraction on our border. Being a Chinese population here in Hong Kong, we are very interested in the mainland, and every effort is being made to co-operate with them. We want to make sure that our plans are *in line* with those for the development of tourism in China."

As far as John Pain is concerned, tourists still do not stay long enough: "After 2½ days, there is a sharp drop in shopping, but tourism isn't just a matter of shopping. We want a visitor to find an interesting package here so that he will come back, and recommend Hong Kong to his friends. We want visitors to leave the colony saying they were not here long enough.

"Ironically, if a visitor stays for five days, then he usually wants to stay longer. If he stays for only two nights, then he leaves thinking he has seen and done it all."

Hong Kong's hotels are full to the brim. The best hotels claim occupancy rates of between 90 and 95 per cent, compared with a world average of less than 75 per cent. This is in part a result of an effective moratorium on hotel buildings ever since the tourist slump following the 1974 oil price rise. The total of rooms available has been virtually static since 1974.

New hotels are soon to be opened, however — three this year and a further six in 1981. So occupancy rates may soon be destined to fall. Hoteliers have a nagging worry that new hotels are mushrooming just at the time when a tourist downturn is imminent.

Modest plans

The fear is not only that the latest spurt in oil prices will force up the cost of air travel to a point where the number of tourists flying through Asia will slump. Economic recession in the United States, and the ripple effect this is likely to have in other countries around the world, is likely to hit people' wallets, forcing them to make more modest holiday plans than they might have done a year ago.

Many in Hong Kong are confident that the colony will escape relatively unscathed. They point to increasing wealth in South-East Asia, and the growing proportion of visitors passing through Hong Kong from these countries. They point to the still-high economic growth being achieved in the region.

D.D.

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HONG KONG XVI

Immigrant influx keeps wages down

THE industrious and inventive labour force of Hong Kong had a mixed year. Few were unable to find work thans kto record demand for the colony's exports and a boom in the domestic construction industry. But those workers who might reasonably have expected a fairly rapid growth in wages were to be disappointed, largely because of the massive addition to the labour force resulting from an enormous influx of immigrants, both from China and Vietnam.

During the year an estimated 140,000 legal and illegal immigrants entered the colony from main land China, a large proportion of them finding their way on to the labour market. In addition to this, on the last day of 1979 there was a total of 55,705 Vietnamese boat people still in Hong Kong waiting for resettlement. Of the boat refugees, around 20,000 took paid jobs during the year. Together they must have increased the labour supply by around 7 per cent.

The influx raised real fears among many in Hong Kong that a decade of economic and social achievement might be undermined, communal stability impaired and plans for further progress thrown out of gear, and yet there were those in the colony who welcomed the invasion as a much-needed source of cheap labour at a time when a booming economy was suffering from a serious labour shortage.

There is little doubt that the influx kept wages down. The level went up by around 10 pre cent in real terms from September 1977 to September 1978, but fell to around 3 per cent in the same period last year. Even with this enormous additlon tothe labour force, unemployment in September last year was only 75,000 or 3.4 per cetn of the workforce.

In September, 1979, the average working wage for workers engaged in manufacturing was HK$40.39 (about £3.50) a day. Some 75 per cent of workers in manufacturing received daily wages of HK$29.95 (about £2.60) while some 25 per cent received daily wages of HK$45.26 (about £4) or more. The average wage for a manufacturing workers last year was therefore around £21 a week.

While this massive influx of cheap immigrant labour undoubtedly helped to maintain Honk Kong its extremely competitive position on world markets, others were less sanguine about the mid- to long-term advantages of allowing cotinued immigration on this scale. Aside from the enormous strains imposed on limited Government social services like education and housing, some analysts are worried that the massive growth in the unskilled workforce may skew the natural development of the colony's economy.

"There's a recession coming and its bound to affect us. We certainly can't expect a repeat of last year's extraordinary growth," says an official at Hong Kong's Development Council. "Hong Kong can no longer afford these massive influxes of people from China. We are currently attempting to diversify our industry and increase the skills of our workforce to prepare for the time when we are no longer a cheap labour economy. What we should be aiming for now is a quality not quantity," he says.

Others, while less outspoken, view the immigrants as very much a mixed blessing. Mr. J. N. Henderson, Hong Kong's Commissioner for Labour, admits that the construction boom may have been physically impossible without the extra supply of labour that he points to what he calls some "striking disadvantages."

"They don't seem to have the same degree of motivation as past influxes of immigrants. Their lack of training, experience and application has undoubtedly given us a number of problems. The number of accidents, in the construction industry in particular, has shot up. New immigrants are just not used to modern building methods," he says.

Child labour

With child labour now largely a thing of the past, industrial accidents have become one of the black spots on the industrial scene in Hong Kong. Last year there were 301 deaths and over 66,000 injuries while people were engaged in their work. Without doubt, construction sites are the biggest death traps. Nearly 40 per cent of the fatalities and over a quarter of accidents occurred at these, and the number has been growing. In the five years to end 1979, construction site deaths grew 132 per cent while the number of accidents rose even further by 189 per cent.

"Construction is our most hazardous area, and this is certainly made worse by the high proportion of unskilled young immigrants flocking to our construction sites in search of work. The latest influx is very reluctant to accept discipline — alcohol at lunchtime certainly contributes to the accident rate," says Mr. Chan Shiu Lap, Hong Kong's chief factory inspector.

The reasons for the high accident and fatality rate are several. Fines are too small, the factory inspectorate spread too thinly on the ground and both managers and workers prove resistant to rules that they feel will slow output.

"We hope to get a budget of HK$1.5m next year for a safety at work publicity campaign. The key is to change attitudes, and that can be a long process. Just as important is the education of Hong Kong's judiciary. Despite the fact that the maximum fine for failing to observe Government safety regulations is HK$10,000, average fines last year were only HK$700. This is just not a deterrent," says Mr. Lap.

The plan is to double the number of factory workers from the present 126 over the next five years, and maximum fines should go up to HK 50,000 some time this year if lobbying from the inspectorate is successful.

One of Mr. Lap's complaints is that the unions have done little to promote safety at work. "In Britain the unions have been up front fighting not only for improved wages but a whole host of labour, factory and safety legislation. Here they do little more than shout. The result has been that nearly all the advances have come from Government initiatives," says Mr. Lap.

While Hong Kong's weak and divided unions have undoubtedly helped to maintain the colony's excellent record on industrial disputes, the reverse side of the coin has been that protection of very large poor and underprivileged section of the territory's working population has been largely left to Government.

Under pressure from Britain, initially over the colony's appalling record for child labour, the administration has made considerable progress in the last decade. Since 1969 a total of 152 items of labour legislation have been enacted to provide Hong Kong's workers with at least a minimum of protection on redundancy, compensation, industrial disputes, paid holidays, safety and working hours.

Though much of Hong Kong's economy must still remain outside the control of Government labour legislation it would be fair to say that the colony no longer generally reflects the image of Dickensian London it did just over a decade ago.

R.C.

Demand for expatriate executives falls as locals climb the ladder

IN THE high summer of Britain's colonial days, the first son in any self-respecting landed family would expect to inherit the family estate, the second to make his career as an army officer, and the third would have to go out into the world and seek his fortune in the colonies.

These colonial days are long faded, though remnants remain in a place like Hong Kong, with its colonial administration and its trading houses—"hongs"—like Jardine Mattheson, Swires, Hutchinson Whampoa and Hong Kong Land.

These form the basis of a still-substantial expatriate community. Their ranks have been joined by executives of the new colonisers — the multinational corporations and international banks.

But there are strong indications that demand for expatriates is falling. Locally-educated people are winning more senior positions, and there are even signs of a greater reluctance on the part of executives from the West to leave home.

Many causes are conspiring to bring about this change. In Hong Kong's Government, which employs over 120,000 people, just 3,118 are expatriates, even though there is a specific commitment to maintain a certain expatriate presence in the senior ranks of the Administration and the police force.

A policy of "localisation"—turning jobs over to local people once they have the necessary skills—has been in force for the better part of two decades.

Outside the Administration and the police, only experts in short supply locally are recruited from overseas—most of them on contract. These include quantity surveyors, magistrates, architects, town planners, geotechnical engineers, senior lecturers, doctors, even bomb-disposal officers, and other skilled workers and professionals.

One consequence of localisation is that it is no longer cheaper to employ a local than an expatriate. Salaries are the same, and so are many job benefits. However, expatriates have an extra week's holiday, air travel home is paid every year, and housing provision is more comprehensive than for Hong Kong employees.

Reluctance

The multinationals—many of them American—are localising as fast as is practicable. According to Mr. Tom King, Hong Kong director of Korn Ferry International, the world's largest executive search organisation: "No-one is going to bring out to Asia expensive expatriates to do a job that a local can do equally well."

Along with a falling demand for expatriate staff below the most senior levels, Mr. King cites increasing reluctance on the part of many U.S. executives to come out to Asia.

"U.S. tax law punishes the executive working abroad by insisting that he is taxed both at home and abroad. Such double taxation counts as a significant disincentive to going overseas.

"It is no longer cheaper to live in a place like Hong Kong than back in the U.S. A recent business international survey indicated that Hong Kong was as expensive as either New York or London.

"Inflation in the U.S. means that executives are reluctant to sell their homes for fear of not being able to buy back in when they return. Fed U.S. companies pay for an executive to keep his home while he is abroad.

"Upheavals in Iran, Afghanistan, Kampuchea and South Korea give executives the impression of an increasingly unstable and hostile working environment overseas.

"Even more important, a recent study sponsored by Korn Ferry and California study revealed that overseas experience is rarely recognised as valuable on the route to the top. Executives leaving for postings overseas may have a nagging fear that they were moving out of the mainstream."

Against this backdrop, it is hardly surprising that Mr. King has found it more difficult in recent years to attract executives to work in Hong Kong. Locally recruited executives can fill the breach to some extent, but by tradition, Chinese employees have proven reluctant to travel abroad—and multinational companies need executive mobility.

Asian career

Hong Kong's old-established trading houses—"hongs"—face different problems. Unlike multinationals, their centre of gravity is in Hong Kong, and they aim to offer a career in Asia.

A company like Jardine Mattheson, which employs about 280 expatriates out of a total workforce of 2,800, nevertheless reports increasing difficulty in recruiting expatriates in the right quantity and of the right calibre.

They cite rising unemployment at home, which makes prospective employees reluctant to throw up secure jobs, a strengthening pound, which has seriously eroded the value of Hong Kong salaries in terms of their sterling value, and the recent fall in tax levels in Britain, which has induced potential recruits to stay in Britain to see if new policies adopted by Prime Minister Margaret Thatcher make it easier for them to earn their fortunes at home.

All argue that Hong Kong is not only much more expensive but that the quality of life in the colony has dropped. Mr. Derek March, Britain's Trade Commissioner, said: "Higher costs are becoming a serious problem, particularly the cost of rents. Pressure on available services is high and access to the colony's leisure facilities has become much more difficult.

First, expatriates have to adjust to high-rise living and rents that are out of this world—HK$10,000 per month is thought reasonable for a three-bedroomed flat in the modest mid-levels of Hong Kong Island.

Then they have to adjust to congestion. This bears in on the city streets, the roads, and the beaches. With population densities reaching 144,000 per square kilometre, and averaging 25,000 per sq km, escape from the thronging crowd is a virtual impossibility.

For a married man with children, education can be a nightmare. Most large foreign companies buy debentures which help to ensure school places for their children, but even then they can expect 40 children per class.

Leisure facilities are also limited. Waiting lists for clubs vary from three years to a decade. Again, debentures offer a partial solution, but few multinational companies have enough debentures to provide for all of their expatriate staff.

Fortunately, Hong Kong's low taxes—a flat 16 per cent—make it unnecessary to offer higher basic salaries. But an executive in Hong Kong is likely to cost three times his basic salary. An executive in Singapore evidently costs about half as much.

Many foreign companies compensate for the drawbacks of working in Hong Kong by providing perks. Debentures have already been mentioned, ensuring membership at clubs. A company like Jardine also offers employees use of two junks, a launch, a 35-foot yacht, two cottages on the island of Lantau, one in Macau and one in Shikou on the Chinese mainland.

Salaries can also be tremendous by British standards. A company like Hong Kong Land will pay around £24,000 for a top man, with a bonus of between £15,000 to £20,000 on top of that.

But they are evidently taking a long hard look at the kind of mix they need. When Korn Ferry started operations in Hong Kong in 1975, all of the executives it recruited were expatriates. By last year the figure had fallen to 20 per cent and looks likely to settle at around that level.

D.D.

Big developers push price of property to new heights

LAND AND property have created more Hong Kong billionaires — not to mention several thousand millionaires — than all the other commercial and industrial activities combined. In the past year, however, property has acquired almost a mystical aura, becoming the local substitute for the philosophers stone which would turn dross into gold.

But this is not surprsing, since property has been at the heart of two major power plays over the past year — plays which have significantly altered the balance of commercial power in the territory.

Last October, Cheung Kong — vehicle of the king of local property developers, Mr. Li Ka-shing — rocked the establishment by acquiring from the Hong Kong and Shanghai Banking Corporation an effectively controlling stake in Hutchison Whampoa, one of the leading European-run "hongs." Cheung Kong was able to do so because of the massive profits and even larger cash flow generated by several major property developments.

Perfect timing

Mr. Li's timing of the market had been well-nigh perfect, enabling him to get into some key central district commercial developments around 1976, just before rents and capital values began to move rapidly upwards.

However, Cheung Kong still lacked sufficient land to provide a steady flow of development opportunities. Hutchison had the land, and Mr. Li had the cash.

Land also proved an irrestible attraction for shipping magnate Sir Yue-kong Pao, whose empire was previously confined to the sea. He outbid and outmanoeuvred the Hong Kong Land Company, part of the Jardine Matheson empire, to gain an effectively controlling 49 per cent stake in the Hongkong and Kowloon Wharf Company.

So keen was Pao to gain control of Wharf and its huge holdings of former dock and warehouse land in Tsimshatsui that he ended up paying HK$2.2bn for a mere 20 per cent of the company. The investment will give him a dividend yield of just 1.3 per cent this year.

But Pao has not been alone in bidding up prices to levels which even a year ago would have seemed unthinkable. Another big buyer has been the Carrian group, a wealthy consortium of overseas and local Chinese investors. Carrian has spent more than HK$2bn in the past year, including HK$1bn for a central district office block, Gammon House. Hong Kong Land, which had paid only $700m for it just a year earlier, was losing some HK$60m annually on the difference between its rental yield and the interest on the money it had borrowed to pay for it.

Land prices have seemed largely immune from the impact of rising interest rates. There have been especially sharp increases in Tsimshatsui, where several major sites have recently been sold by the Government. Early this year, one such prime site fetched HK$16,000 a square foot, double what a similar one had done in mid-1979.

Prices of this order at a time of high interest rates clearly indicated that buyers were financing their deals from booming development profits rather than borrowings. However, in the longer term, values slightly were bound to be affected by high interest rates, rising construction costs, and the government's decision to insist on immediate full payment for auctioned land in place of an instalment system.

Early this year it was beginning to become apparent that the small- to medium-size residential flat market had peaked. Average flat prices had risen 20 per cent in 1978 to HK$4,337 a square metre, and jumped by 70 per cent in 1979. Prices at year's end showed even bigger gains as speculation reached fever pitch. But, to quote the Government's annual property review: "Prices had reached levels which, together with historically high interest rates, had removed from many families any hope of obtaining even a modest home of their own."

The fever would have run its own course anyway but was further cooled by the extension of rent control legislation to cover several categories of lettings hitherto outside its scope. Though new rental levels continued to climb, the fact that rent increases in almost all premises are now subject to an annual ceiling of 10 per cent has dampened investor enthusiasm.

Doubled

The drop in values for small- to medium-size flats did not apply in large, luxury accommodation. Demand in this area, especially for rented accommodation, remained high because of the continued influx of expatriates into the banking and China trade sectors. Rents at the top end of the market, which had averaged HK$31 per square metre in 1978, had doubled to HK$63 by the end of last year. Rents of small flats rose only 70 per cent over the same period.

The extension of rent control means that all the marginal demand pressures are now concentrated in a small sector of the total residential property market. Half the population lives in Government housing, where rents are a fraction of those in the private sector, and most of the rest are either in owner occupation or in the private rental sector, which is subject to controls.

Demand pressures at the top of the residential bracket have been paralleled in the commercial sector with intense pressure for high quality central offices. According to Jones Lang Wootton, prime office rents in the central district have now reached HK$17 per square foot per month, compared to HK$12 a year earlier.

Similar percentage increases have been noted in Tsimshatsui and Wanchai/Causeway Bay. The latter area has risen especially fast and top rents there are now said to be slightly ahead of Tsimshatsui. But rents in Tsimshatshui are likely to rise faster with the advent of the Mass Transit Railway.

Both areas are still 30-40 per cent cheaper than Central. Opinion is divided as to whether office rents have reached a plateau, or will start to decline as large amounts of new accommodation—about 3.2m sq ft—become available. This includes developments above MTR stations, which were mostly presold on a floor-by-floor basis. As a result it is not entirely clear whether firm tenants are lined up for all of them.

During the 1973 boom, office rents peaked at HK$10 per square metre and then fell back to HK$7. Such a sharp fall is unlikely this time, but some slippage appears possible.

Industrial premises, at least in the New Territories, are already in substantial oversupply despite the rapid growth in manufacturing output last year. Rents last year rose only 10 per cent on average. A total of 2.5m square metres is likely to be completed during 1980-81, adding some 25 per cent to the stock.

Looking further ahead values and rents of industrial premises are likely to be held down by the determination of the Government, under pressure from industrialists, to make more land available to reduce land cost disincentives to industrial diversification. Another factor may be the opening up of the Shenzhen and Shekou industrial ... across the border in China ... attract ... some ... or land intensive ... industries.

P.B.

Education: 100 years' progress in a decade

Schoolchildren at Sha Tin, one of Hong Kong's new towns

THE extraordinary thing about Hong Kong's education system, like the colony itself, is how fast it has grown and how far it has come in such a comparatively short period of time. Less than ten years ago it was at least a century out of date. Now one might perhaps fairly compare it with the education system in Britain at the time of the Second World War.

It was not until 1971 that primary school education was made free, compulsory and available to all Hong Kong children between the ages of six and 11. Before that Hong Kong had an unsavoury reputation for sweat-shop child labour similar to the kind of exploitation that occurred in Britain during the industrial revolution.

The headmistress of one of the poorer Chinese-medium secondary schools says: "One of the reasons why we eventually got free primary school education was that the system was driving the kids on to the streets, into crime or into jobs where they were open to abuse. Hong Kong was widely condemned as a proponent of child labour for many years—something which obviously comes to a halt if you put the children into school."

Less than 12 months ago the government of this tough, competitive, laissez-faire society hauled the colony a good bit further into the 20th century by making secondary education up to the age of 14 compulsory as well as free. This means that every child is now entitled to nine years free schooling. From this year the government will be given powers to enforce school attendance up to the age of 15 or completion of form three.

Next year the system will receive another jolt when between 60 and 70 per cent of form three pupils—an estimate of those who are bright enough to pass the exam—will be provided with free form four and form five places. Thus no child in Hong Kong, provided that he has the ability, will be prevented from passing the general certificate of education through lack of money or places.

Quality next

With the enormous expansion over the last ten years the emphasis has almost inevitably been on quantity rather than quality. Mr. Kenneth Topley, Hong Kong's director for education since 1974, says: "Since the beginning of the last decade access has taken precedence—we concentrated on giving everyone a chance to get into education. We now hope to be getting down to improving its quality."

Until now there has been a serious shortage of adequately trained teachers. Often the only way the government has been able to fulfil its commitments has been to buy places at private schools, over whose standards it may have little control.

The government has embarked on a major school-building programme (33 new secondary schools are planned for completion by 1981). But its continuing reliance on the private sector—some schools being built in the new territories are being offered to the highest bidder—has caused some to ask whether the Department of Education tried to run before it could walk.

"People have been offering as much as HK$ 250,000 (£22,000) for the right to run some of the new primary schools in the new government housing estates. This puts education into the hands of profiteers and speculators" says Mrs. Elsie Elliott, urban councillor and campaigner for social reform.

The problem of finding enough adequate places both at primary and secondary level has been compounded by the fast growth of Hong Kong's population. From around 500,000 after the war, it had grown to about 5m in 1979. The recent decline in the percentage of the population under 15 has been largely offset by the growth in numbers, while successive waves of immigration have sometimes played havoc with educational planning.

One of the less publicised problems has been that with a majority of secondary-school subjects taught in English, many children from Chinese primary schools have got badly left behind. Mr. Charles Lowe of the University of Hong Kong education department says: "Many of these children have inadequate English, but they want to learn the language in order to maximise job prospects. The educational price of this influx into second education has been very high."

The intensely competitive nature of Hong Kong society permeates every aspect of life in the colony, including education.

Powerful

Almost 200,000 children between he ages of three and six are enrolled in Hong Kong's 840 privately run kindergartens. With more than 80 per cent of the colony's children below school age in kindergartens these schools can and do have a powerful influence over the development and futures of local children. Some of these kindergartens employ pre-entry tests to preserve their reputations, and the overwhelming majority concentrate on preparing children for the primary school entrance exams. Thus in Hong Kong the examination results of five and six year olds more often than not set into motion the course of their whole school life.

The Government's education department, at least, is keenly aware of the problem. A green paper has recently been published in which the Government makes a number of proposals to tacklet the key issues. The green paper aims to get as many kindergartens as possible to accept a Government subsidy in return for allowing it some say over standards—which in many kindergartens badly need to be raised. The paper suggests, among other things, the abolition of kindergarten entrance interviews and tests, more emphasis in learning by doing, a limit of four hours a day at school, and a minimum age for entry of three years eight months.

R.C.

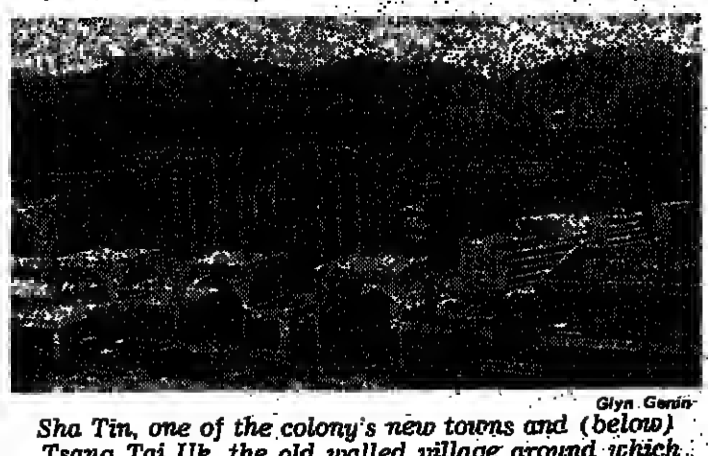
Massive building programme tackles housing problem

SIR PATRICK ABERCROMBIE, who drew up plans for rebuilding London after World War II, said 30 years ago: "In comparing Hong Kong with many other places, two special characteristics of its problems at once emerge . . . first the shortage of land for any sort of urban expansion, secondly an unlimited reservoir of possible immigration."

Sir Patrick hit the nail on the head, and Hong Kong now boasts congestion problems and immigration pressures which defy the imagination. These persistent problems have been the catalyst for one of the most far-reaching home-building programmes in the world.

Hong Kong's population has grown from 600,000 in 1945 to around 4.9m today. On a land area of just 144 sq kms, most of it barren mountain slopes, congestion in one part of Kowloon reaches 144,000 per sq km. The population density for the colony is almost 4,500 per sq km and over 25,000 per sq km taking into account only Hong Kong Island and Kowloon. This compares with a density of 44 in Malaysia and 22 in the U.S.

Housing problems were clearly such that piecemeal solutions were quite inadequate. Two catalysts in particular galvanised the authorities to take precipitate action: first, a huge fire in Shek Kip Mei in north Kowloon on Christmas Eve 1953 which obliterated one of the colony's largest squatter settlements, leaving 50,000 homeless; and second, three major immigrant influxes from China. The first wave came in the late 1940s, the second in 1962, and each brought around 1m Chinese flooding into the colony in a matter of months. The latest wave, still in progress, has brought a *further* 250,000 people into Hong Kong.



Glyn Genin

Sha Tin, one of the colony's new towns and (below) Tsang Tai Uk, the old walled village around which it is being built

Emergency

After the fire, an emergency housing programme was begun—a programme which was only *formally* abandoned in 1973. Twelve resettlement estates were built. Between then and 1962 18 low-cost housing estates were also built.

By the mid-1960s, plans for a more dramatic solution—whole new towns—were taking shape. Not new towns as imagined in suburban England, but full-blown high rise metropolises. The "new town" of Tsuen Wan, west of Kowloon, is destined to grow to 1m people, while two others, at Sha Tin and Tuen Mun, will grow to 500,000 each. A number of smaller towns, intended to grow to between 80,000 and 250,000 are also planned in the new territories.

In 1972, Hong Kong governor Sir Murray Maclehose announced a 10-year public housing programme which would cost more than HK$ 30bn and would provide homes for almost 2.5m people.

By early this year, the colony's housing authority had 400,000 tenancies, with a building programme aimed at providing an extra 35,000 homes a year (5,000 of these for private purchase). In the new towns, more than 70 per cent of the population lives in public housing. In the colony as a whole, the figure is 40 per cent.

If population growth projections made *a decade* ago *had* not been rendered irrelevant by the constant immigrant influx, such a major building programme would have answered most of the colony's housing problems. As it is, however, about 140,000 families are still on housing waiting lists, and unless they opt to go to outlying areas of the colony, they can expect to wait around seven years for accommodation.

Between 1979 and 1984, the housing authority expects to build another 150,000 housing units. But in the same time a further 215,000 families are expected to join the queue for new homes.

Creation of such large cities from scratch inevitably causes social and infrastructural problems. For a start, families have had to adjust to high-rise *living*. They have had *to move* into cities that look more like building sites.

As Mr. David Akers-Jones, Secretary for the New Territories, recently acknowledged: "Now our new towns are largely *dust* and *landscape* defiled by earth - moving machinery, with here and there a glimpse of the fountains and gardens of the future amidst pile drivers and scaffolding of the present."

Social and recreational amenities have not grown space with residential accommodation, and it will be several years before they "catch up."

Industries too have been slower to arrive. In a city like Tsuen Wan, which has already a well established manufacturing centre set next to Hong Kong's main container terminal, *Kwai* Chung (*which* has the fourth highest cargo throughput in the world), this has not been a problem.

But Sha Tin has faced serious problems. Due to its particular location, atmospheric pollution is likely to be a severe problem unless strict controls are put on local industries. At the same time, acute sewage disposal problems *rule out certain kinds* of industry from setting up locally.

As a result of these problems, very little industry has yet been attached to this new town, which is due north of Kowloon *on the main route to the* Chinese border. It has become a dormitory town for commuters to Kowloon or Hong Kong Island—a serious drawback for planners aiming to turn Sha Tin into a self-contained and integrated *community*.

Transport problem

A further problem has been to develop road and rail links fast enough to guarantee easy access to the new towns. Six lane highways now link Kowloon with Tsuen Wan and Tuen Mun, and one is being built to Sha Tin. A second vehicular tunnel has been carved through the Kowloon foothills.

The Kowloon-Canton railways is being electrified, double-tracked and generally modernised—at an estimated cost of HK$ 2bn—and is due to be complete by the end of 1982. The mass transit railways, opened amid fanfares last October, is also to be extended east and west from Kowloon, easing business and commuter access to the *new territories*.

But as infrastructural development has lagged, so development of the new towns has been uneven. Very little private property development has yet taken place, mainly because few of the colony's richer families are willing to move away from Hong Kong Island or Kowloon until communications are improved. The new communities are therefore not yet "balanced" as the colony's planners would like them to be.

These are *all* genuine and justifiable teething problems. Mr. Akers-Jones confidently predicts: "We know how, within the constraints of high density development, we can create a satisfying and stimulating environment."

One persistent worry has been the alarming rise in land and property prices, much of it fostered *by* speculative buying in recent years. Here, the Government has split loyalties. On the one hand it has a commitment to provide housing as cheaply as possible to the colony's poor. On the other, it relies on land *sales to* fund about 30 per cent of its budgetary spending and therefore has a vested interest in keeping prices high.

In response to public worries, the Government recently imposed controls on the cost of private rents, limiting increases to just 20 per cent every two years.

For the poor (no *family* earning more than HK$3,185 is entitled to public housing) rents have been kept fairly steady. About 55 per cent of families in public housing pay out less than 6 per cent of their income in rent. For the 6.9 per cent who pay out 16 per cent or more of their income in recent, refunds are paid out.

Since 1976, the *Government* has had a policy of building homes for sale as well as for rent. The first come onto the market in 1978. They are now in six estates, and a total of almost 9,000 have now been completed.

The Housing Authority plans to build about 5,000 a year, selling the flats twice a year, and limiting sale to families with earnings of HK$5,000 a month or less. Since they sell the flats at cost price, they are between 25 and 30 per cent cheaper than similar flats bought from private developers.

The sale of leases in the new territories is soon likely to raise a delicate new problem. Banks traditionally offer mortgages for repayment over 15 years. But by 1982, they will not longer be able to do so without allowing repayment beyond the date when Britain's lease of the territory from China lapses in 1997. The Government's "build for sale" programme could flounder unless the colony's lease problem is resolved.

D.D.

Squatters: Price of laissez-faire

HONG KONG is lauded throughout much of the Western world as perhaps the most shining example of a truly private enterprise system. Evidence of this success, say the colony's admirers, is the fact that Hong Kong's economy has, against considerable odds, continued to grow at a rate that must certainly be the envy of much of the developed and under-*developed world*.

The colony's free-wheeling fundamentalist laisse-faire brand of capitalism might be a roaring economic success, but the social cost can be very high. Not far from the mile-long glittering facade of Nathan Street — a shopper's paradise that makes London's Oxford Street look positively provincial — lie acre after acre of squalor and apparent destitution.

Bunched precariously on eroded hillsides, perched on top of 20 storey skyscrapers and floating platforms in the harbour, spread across old disused quarries and among giant housing complexes, are the fragile huts of nearly a million squatters. They live, like others of their kind in Rio, Jakarta and Calcutta, in makeshift structures of bardboard and corrugated iron, wherever there is an available space.

Mr. Donald Liaou, Hong Kongs Secretary for Housing, estimates that there are currently 750,000 squatters through the colony, but admits that this is only an educaed guess. The last squatter survey, in 1976, was limited to a *count* of the huts and not the number of people living in them. With the enormous influx of refugees into Hong Kong in the last 30 *months* some believe *the figure* could top the million mark.

But even if one accepts the conservative estimate of 750,000, this still means that around 15 per cent of Hong Kongs total population are squatters, often *living* in the *most squalid* conditions with no proper sewerage and certainly no legal right to the land they have appropriated.

At first sight—and most casual visitors to Hong Kong do not notice them—the squatter areas seem to explode the myth of Hong Kongs success.

The life of the average squatter is certainly not an easy one. A new squatter buys his illegal shack (current price around £900) from a racketeer, often a member of a Triad gang which may have evicted a market gardener to obtain the land in the first place. He is then forced to steal electricity and water by illegally tapping an existing network that may be supplying a nearby housing estate or factory.

Having got so far, he runs the gamut of health hazards that accompany the lack of sewage and rubbish disposal. He also faces the immediate possibility of having his home knocked down by the Government's 1,300 strong squatter-control unit (over 73,000 squatters were moved to make way for new development in 1978 and 1979). And lastly he has to face the very real possibility that he might fall victim to one *of* the many fires that rage through squatter areas every year or one of the annual typhoons.

CONTINUED ON NEXT PAGE

Corruption: a cancer hard to eradicate

AN OBVIOUSLY corrupt Mister Fixit waddles across the screen and counts his ill-gotten gains. It looks as if he is bribing his way to more loot. But those whom he solicits report him, while a reassuring voice affirms that there must be no return to the bad old ways and days. Mister Fixit gets clobbered. The viewer is enjoined to "Walk tall, report corruption."

This 30-second cartoon commercial, in both English and Cantonese, appears regularly on Hong Kong television. It ends with the complaints telephone number of its sponsor, Hong Kong's Independent Commission Against Corruption (ICAC).

It is obviously having an effect. After a slump in 1978, the number of reports received by ICAC is back to the 1977 level, the year which ended with the police mutiny against ICAC and the resultant amnesty for past corruption offences.

The number of complaints in the year following these events declined to 1,234 but in 1979 rose to 1,665 with a greater proportion being non-anonymous (961) rather than anonymous (704). Evidently the quality of the complaints improved. ICAC found 1,066 of the complaints worth detailed investigation. A record number of 284 persons were prosecuted as against 181 in 1978 and 272 in 1977. Eighteen prosecutions were taken last year against those "knowingly making a false report."

But while the television advertisements may encourage complaints they probably will not cure the disease — indeed, the greater the public awareness and ICAC effectiveness, the more likely it is that the corrupt will become more devious, and difficult to detect.

Hong Kong itself, after all, became a colony because of one of history's more corrupt practices — the opium trade between the West and China. The city-state's free-wheeling ways have had 138 years to take root. ICAC has only been on the job since 1974. Hong Kong's Chinese have abundant reason for being cynical about the ways of the world. Traditional Chinese, and also western, practices in this home of free enterprise do not always rest easily with moral ideas concerning, and precise legal definitions of, what is corrupt.

Above all, perhaps, there is, to twist the message of the commercial, the tremendous social and economic pressure to walk tall by amassing some wealth, even if that means cutting some corners. ICAC references to "winning the hearts and minds of the population" are appropriate reminders of the terminology more usually associated with guerrilla warfare. "By far the most difficult task," says the 1979 annual ICAC report, "is to persuade the Hong Kong community as a whole that corruption is unacceptable. It must be stopped, and everyone has a part to play in stopping it."

Small part

This difficult task is handled by the community relations department of ICAC. The television commercial is only a small part of the department's effort. This spans the media as a whole, the education system, youth clubs, as well as government bodies and departments. Seminars and workshops are held to promote civic responsibility and awareness of citizens' rights. Specific projects range from creating a monopoly-style board game to carry the anti-corruption message, to preparing booklets on officials in Chinese history noted for their integrity.

The network of ICAC district liaison offices throughout Hong Kong is being further extended. A research unit also conducts surveys of community attitudes. One recent survey indicated the continued need for educational effort and more television commercials: those surveyed perceived considerable virtue in those who were not corrupt but less virtue was ascribed to those who report corruption.

In order to get yet more positive perceptions and influence to future behaviour, the vital community relations work requires "vivid up-to-date examples of corruption which can be used to drive home the lesson that evil is still present." Here, as elsewhere in Asia, the complaint is often heard that ICAC gets the small fry but not the big fish. Every complaint has to be investigated—and people are more likely to give convincing evidence of the small examples of corruption that impinge on their daily life rather than the larger examples of illicit wheeling and dealing.

But the latter cases are the ones that drive the anti-corruption message home. This year the conviction of Walter Boxall, the former property manager of the Hong Kong telephone company, will help towards this end. He was recently sentenced to four years in prison on 12 charges of accepting kickbacks, and five charges of conspiring to defraud.

The Boxall case was additionally useful as an example, given the longstanding Hong Kong "tradition" of the corrupt to flee with their ill-gotten gains. Boxall quickly departed the colony when ICAC was hot on his trail, but was subsequently extradited from Britain.

The reason Boxall's corruption was discovered reveals another little-known side of ICAC's work. This is the corruption prevention department (CPD) which advises on the ways in which the procedures and practices of Government Departments, and public bodies, may be geared to reduce the opportunities for corruption in the first place. The trail that led to Boxall's ultimate conviction began when the corruption prevention department submitted a report on the procurement procedures of the telephone company.

Last year, the CPD submitted 59 reports on various aspects of administration and re-examined and revised 32 earlier reports. These cover a wide field ranging from the procedures governing land belonging to the Kowloon-Canton Railway to those used by the Inland Revenue for assessing profits tax, from the methods of the police in enforcing traffic laws, down to procedures used by the marine department to grant certificates of competency to owners of pleasure craft.

Some of the preventive work has wider relevance than just anti-corruption. Two of last year's analyses dealt with the issuing of certificates for Hong Kong exports.

One report concerned the certificate procedures of the Government, the other the practices of the five chambers of commerce and manufacturers' associations which are also authorised to issue certificates. Fifty-four per cent of all Hong Kong exports are covered by certificates of origin which facilitate access to markets or allow preferential tariffs to be claimed. As the ICAC annual report points out, "At a time when quotas and trade protection barriers are of growing significance, it is essential that Hong Kong's certification systems be recognised worldwide as effective, closely supervised, and trustworthy."

Likewise the CPD has involved itself in the procedures of the immigration department. As some observers see it, the very fact that Hong Kong's population is rising so fast and so continuously adds to the pressures which induce corruption. One aspect of the widespread resentment felt at the continued inflow of refugees and illegal immigrants is the suspicion that in this field, at least, syndicated corruption continues to exist.

The very fact that illegal immigrants are granted identity cards if they make it to the central urban areas stems, in part, from the fear that if this were not so, the illegal immigrants would go underground and become a further pressure for corruption.

Twice as many

Conversely, the number of corruption reports received by ICAC concerning the immigration department doubled last year from 28 to 56, leading ultimately to five prosecutions in 1979 as against one the previous year. But in terms of detailed corruption investigations of Government department by ICAC, immigration ranks fifth after the Royal Hong Kong Police, public works, urban services, and the new territories administration.

In terms of ICAC prosecutions, the police are still foremost with 44, followed by public works (12), trade and industry (7) and immigration.

In terms of corruption complaints, the police led in 1979 with 635. Ninety-one were received about the public works, 79 about urban services, 64 about housing, and 59 about new territories.

Thus while enough has already been said to indicate that the struggle against Hong Kong corruption cannot be seen merely in terms of ICAC versus the police, that theme is still an important one. While the numbers of complaints against, and investigation of, the police both increased in total last year, the number of prosecutions has declined—from 126 in 1977 to 62 in 1978 to 44 last year.

It was, of course, the growing scandal of police corruption which primarily led to the formation of ICAC in 1974, and the tensions which erupted in 1977. The operations department of ICAC hopes that large-scale syndicated corruption—which in the public mind was particularly associated with the police—is "now dead and will remain so." ICAC claims that "there has been a steady improvement in its relations with the police." Liaison and consultations between the two are growing and improving. The police undertook 35 of the 284 prosecutions initiated by ICAC last year.

Unlike Singapore, Hong Kong does not enjoy the anti-corruption advantages of being an independent city state, with stable population, self-governed and driven by a political leadership and party which can preach and pressure for greater puritanism. In Hong Kong the pressures continually rise for something much less than walking tall. The rapid expansion of economic links with China also opens up many more theoretical possibilities for illegal corner-cutting, apart from those involving immigration. The very uncertainty over Hong Kong's colonial future could be a massive inducement for corruption as the date of 1997 looms closer. As it "presses home the attack" against corruption, ICAC seeks more allies in the struggle for integrity. Ultimately, these allies must include China and Britain, since London and Peking have the responsibility of eliminating corruption-inducing political uncertainty.

Harvey Stockwyn

Squatters

CONTINUED FROM PREVIOUS PAGE

In one month alone last year, three fires made 10,000 squatters homeless in the Kowloon area. The first fire alone used up all the temporary Government housing available.

"One of the greatest hazards squatters face is fire. The worst one last year was at Ma Chat Hang in Kowloon. It started at four in the morning. There was a big wind blowing and the squatters' shacks went up like matchboxes. Some 300 huts were burnt out and around 6,000 squatters were made homeless. It was amazing that no lives were lost," says Mike Smith, Assistant Director of Housing in charge of squatter control.

Not unnaturally many squatter areas provide ideal locations for the activities of criminals and gangsters. Even shack building can be big business in Hong Kong, and fights between rival gangs for control of the more lucrative squatter areas has become commonplace in the last couple of years as the pressure on land and housing has increased under the wave of new immigrants from China.

"The Triad hut - building racket is now a multi-million dollar industry. Recently I got through an amendment to the Hong Kong Crown Ordinance to make it possible for the police to go into squatter areas and arrest these racketeers. The problem is, though, in getting people to testify against these criminals, who show little hesitation in using force to stay in business," says Donald Liao.

In fact the police have made some spectacular arrests in the last few months. At one of the more unsavoury squatter areas, Tai Hom Wok, the police have recently arrested a number of gangsters from the Tai Yun Chai (Big Circles Boys), and a triad gang known as the 14K. They had been fighting for control of the shack-building monopoly in the area and in the process three of them had suffered serious stab wounds.

Later Squatter Control, assisted by 30 policemen, moved in and knocked down 238 new shacks that had been built in the previous week. The outcome was a loss of HK$238,000 to the gangs, and around a thousand potential squatters were left looking for somewhere else to squat.

The immediate reaction of the average visitor from Britain when confronted with hillside after hillside of these sordid settlements is to fling Hong Kong's laissez faire battle-cry in its face. But this is not the majority view in The Housing Authority, not indeed among the squatters.

Officials argue that it has been the very success of Hong Kong that has produced the problem. The colony has received vast numbers of legal and illegal immigrants, mostly from China. They believed, and still believe, that Hong Kong has more to offer either materially or ideologically than the place from which they came.

Inseparable

"Our urban area is so small, our economic strength has been so visible, the influx has been so great. The post-war history of this place is virtually inseparable from that of squatting. First they came to escape the Communists in 1949, then in 1962 to flee the famine in Guangdong, and more recently they have flocked in as restrictions in China have eased under the new regime. These three great influxes have created major housing problems—something we could hardly plan for," says Donald Liao.

"In fact it was the Ship Kip Me disaster in 1953, when overnight a fire made 50,000 squatters homeless, that first forced the Government to start an emergency housing programme. Today we have over 2m people in Government flats, a major proportion of them ex-squatters or children of squatters."

For most of the 280,000 legal and illegal immigrants who entered Hong Kong in 1978 and 1979, squatting provides an initial foothold in the colony. In time, some will move on to the 30 storey public flats they can see from their tiny one-room shacks. Others will find the economics of staying put an attractive proposition. Others still will never make it, and are forced to eke out a meagre livelihood in what can hardly be called ideal conditions.

In Hong Kong, squatting is a whole way of life. The rickety hillside shacks breed hundreds of family businesses. Many find themselves with telephones, fridges and television sets, while a few become millionnaires. The only thing that unites them is that they are living illegally, on land over which they have no rights, and in conditions which to most Westerners would be totally unacceptable.

In one of the old-established squatters' areas, up in the hills above Kowloon, works and lives squatter In-Wai Hui. He's been there 20 years, and has no legal right to remain there. In an old quarry surrounded by trees he has designed and built his own sulphuric acid plant. The plant reeks of acid fumes and one of his 15 workers proudly shows the burns on his leg, saying "Our acid is over 90 per cent pure — it's the best in town." Mr. Hui is a millionaire.

"We are curently building 35,000 public-sector flats a year, and we have a seven-year waiting list, most of whom are not squatters. I am under no illusions about solving this problem. Ten years ago we thought we might have had it licked, but if immigration continues at this rate it will be impossible to see an end to our squatter population," says Donald Liao.

Others disagree. Mrs. Elsie Elliott, MBE, an urban councillor who champions the rights of the Hong Kong Chinese, says: "The key problems are housing starts and the level of immigration. If we can build a Mass Transit Railway in such a short time, I fail to see why we can't double the output of Government housing.

"But right at the heart of it all are the illegal immigrants. Now they no longer come for ideological reasons or to escape war and famine: they come in search of the better life. A direct consequence of this is that the squatters who have been here for 20 years and the locals on the seven year public housing waiting list have to suffer. The Government must give up this so-called "British fair play" immigration policy which allows those who beat the border patrols to stay. We now have to get tough, and start sending new illegal immigrants back to China, wherever and whenever we find them, and that's the only way we're going to solve our squatter problem."

R.C.

Gambling on a golden future in the commodity markets

BY THE END of July, Hong Kong hopes to have in operstion a formal market in gold futures making it, say the promoters of the scheme, the principal gold trading centre for Asia.

Hong Kong already is an important gold centre by virtue of having the Chinese Gold and Silver Exchange Society (Kam Ngan) but this deals in physical gold rather than futures. operates oo the archaic uoit of taels rather than ouoces, and trades gold of a fineness lower than that used io international trades.

The opeoing of the proposed gold futures market, oow io an advanced stage of preparation, will bring Hong Kong into direct competition with Singapore, which launched a similar market less thao two years ago. Both centres are keenly aware of the competition they will present to each other in the coming few years.

On March 5 this year when the Hong Kong Government formally announced its approval for gold futures trading being added to the other activities of the colony's commodity exchange, the Singapore Government annouoced tax cuts to help ourture the republic's fledgling gold futures market.

Since then the Singapore Gold Exchaoge has offered other indncements, such as the introduction of a kilobar contract along with the standard 100 oz contract.

No one doubts that the Hong Kong exchange's decision to add gold to its existing fntures activities in sugar, cotton and soya beans is going to deal a blow to the Singapore gold market, which is estimated to draw about half of its business from Hongkong at present.

But Hoog Kong dealers argue that once the two markets are established and working in tandem they will induce flows of new business, to their mutual benefit, from the U.S. and elsewhere as International dealers maximise their opportunities In Asia while other markets elsewhere are closed.

Meanwbile, the Hong Kong Commodity Exchange bas had problems much closer to home to worry about. Until very recently, Mr. Woo Hon Fai, the chairman of the Chinese Gold and Silver Exchange Society (Ksm Ngan) was strongly opposed to the commodity exchange being allowed to trade gold futures.

Mr. Woo is a powerful man in the commodity world, being also vice-chairman of the Hong Kong Commodity Exchange's holding company, Seacom. His opposition to the new market could not be taken lightly.

Mr. Peter Scales, chairman of the exchange admitted that without the Chinese speculative element—an essential feature of any active futures market—the new venture could be badly impaired.

'Paper' market

Mr. Woo claimed that there was a kind of gentleman's agreement when the exchange opened that one commodity it would not trade in was gold, traditionally the preserve of the Kam Ngan.

Other parties denied the existence of such an agreement, however, and many people found it hard to understand Mr. Woo's opposition to a "paper" market when the one he cootrols is concerned essentially with physical gold.

The Kam Ngan does not deal in futures and though it does give investors the chance to keep their position open through payment of a daily fee, this is not really akin to formal futures trading.

The Kam Ngan supplies a good deal of gold to the local, thriving jewellery trsde and it also draws in a lot of speculative business, not only from Hoog Kong but also from wealthy overseas Chinese in places as far apart as Thailand, Indonesia, the Philippines and Vietnam.

Everything seemed to favour the Kam Ngan being able to keep this business against competition from the new futures market, which would cater more, it was argued, for the international bullion and commission rather than for local speculators.

Chioese in Hong Kong and elsewhere in the region are accustomed to dealing in taels (one tael is equal to 1.2 fine ounces) rather than ounces, and for centuries, according to Mr Woo (they have bought gold of 0.99 fineness rather than the 0.005 fineoess which the local commodity exchsnge will deal in and which is favoured by similar futures and physicals markets around the world.

One reason for this is the Chinese passion for sporting gold in the form of jewellery aod thus their desire to have a slightly harder metal (0.99) which will not be damaged so easily as the finer, but softer, metal traded elsewhere.

In view of all this it was difficult to see why Mr Woo put up such a long and stiff fight against the futures market, and even threatened at ooe stage that the members of the Kam Ngan would boycott it.

Some people felt that Mr Woo was in fact afraid that the much greater scope for trading at the margio, which futures offer, would lure the gambliog-prone Chinese away from physicals trading, where the scope for speculation is not so great.

Mr Woo to some extnet acknowledges this but puts it differently. He argues that he does not want the small investor in Hong Kong to "burn his fingers" by dabbling in futures trading.

And there is no doubt that, given an opportunity, the local Chinese community from amahs (servants) and tax drivers upwards will happily try any kind of gamble available, be it Hong-Kong's heavily-patronised race courses or the local stock exchange. Mr Woo likes to think that the Kah Ngan uoderstands the local Chinese better than a (largely) expatriate-run commodities exchange would and that even though the Kam Ngan offers the chance to deal in minimum lots of 100 taels (currently costing only aroued HK$3,400 ($16,660) his dealers discourage the small man fcom speculating.

Whether as a measure to placate Mr Woo or not, the Hong Kong Government when it formally announced its approval for the new futures venture went out of its way to stress that the new market would "not encourage speculation."

Regulations against syndicated trading would continue to apply and lots would have to be of a specified minimum value. This would offer no scope for small investors, and big investors would be dealing on a properly regulated market rather than with fringe operators.

The question of fringe operators is a delicate one as far as Mr Woo and the Kam Ngan are coocerned. The Hoog Kong Government has long been concerned about the activities of companies which employ high-powered salesmen to talk local Chioese into highly speculative trading in gold.

More often than oot this leads to serious losses for the investor and sometimes to threats and worse if they are unable to meet their commitmeots io a falling market.

It has been claimed that these fringe elemeots deal through the Kam Ngao, although Mr Woo firmly denies that anyone other than bis own members are allowed to deal there.

It is always possible for fringe operators to deal through his members, Mr. Woo admits, but he claims he firmly warns members against dealing with fringe operators and that any who persist in doing so can be suspended from membership.

Mr Woo claims than frioge operators do not need to go theough any formal gold market if they can persuade ooe group of investors to sell gold and another to buy, and take the margin themselves.

At most they would need only to buy topping-up quantities theough the market when supply does not exactly match demand.

Fringe dealers

Meanwhile, the Government, approaching the problem from a somewhat different angle, has stated its intention to bring in legislation curbing the activities of fringe dealers.

Mr. Woo now declares himself to be satisfied that the new futures market will not encourage undue speculation and, therefore, he fully supports the venture. He also admits that he bas encouraged some members of the Kam Ngan to apply for membership of the gold dealing section of the exchange.

Mr. Scales for his part welcomes this development and says that with a nice balance of local speculative elements, international bullion dealers and commission houses the new venture has all the right ingredients for an active market.

He is hoping that Japanese commodity dealers, who have ambitioos to become an increasingly powerful force on the international commodity dealiog scene, will join Hong Kong's new market as active gold traders.

One problem, however, is that the Japanese are used to dealing in groups rather than under the individnal "open outcry" system which characterises Western-style commodity exchanges.

Traders used to either way of dealing tend to be suspicious of each other, but Mr. Scales is hoping that measures he has taken to lure the Japanese into Hong Kong's soya bean market, by allowing group trading, will in time lead them to try "open outcry" too and that some form of synthesis will ultimately come about.

Meanwhile, the Hong Kong Commodity Exchaoge is iocreasingly on its guard over its own membership. The exchange has a maximum of 250 shares authorised for issue—such things are governed by the official Commodities Trading Ordinance.

Each member is issued one aod more thsn 80 have gone out already. This is surprising in view of the moribund state of cotton and sugar futures trading on the exchange and still only moderate activity in soyabeans.

But the explanation is that, ooce accepted as a member of the Hong Koog exchaoge a dealer cao become officially registered in the colony and can then begin soliciting business locally to place on other international commodity markets.

Bull phase

"Now that we have the gold rush, I would expect that we would be more selective in processing applications (for membership of the exchange) to give priority to those dealing in our own market and not merely using us as a means to deal elsewhere," says Mr. Scales. "We have had a flood of applications from potential members," he adds.

The Hong Kong exchange announced on June 18 that the contract for gold futures trading would be of 100 troy ounces of 0.995 fineness cast in 100 troy ounce, 50 ounce and one kilo squs. The currency of quotation would be U.S. dollars and delivery in London. The trading method wonld be open entry and the trading language Chinese (Cantonese dialect). Margins are yet to be decided. This will all take several weeks and the new market could be resdy to go in about two months but the launch will almost certainly be delayed until the gold price looks to be in a sustained bull phase.

Memories are still strong of how cotton futures trading was launched in an established bear phase—theoretically as good as a bull phase for speculators—and how, nevertheless, it flopped.

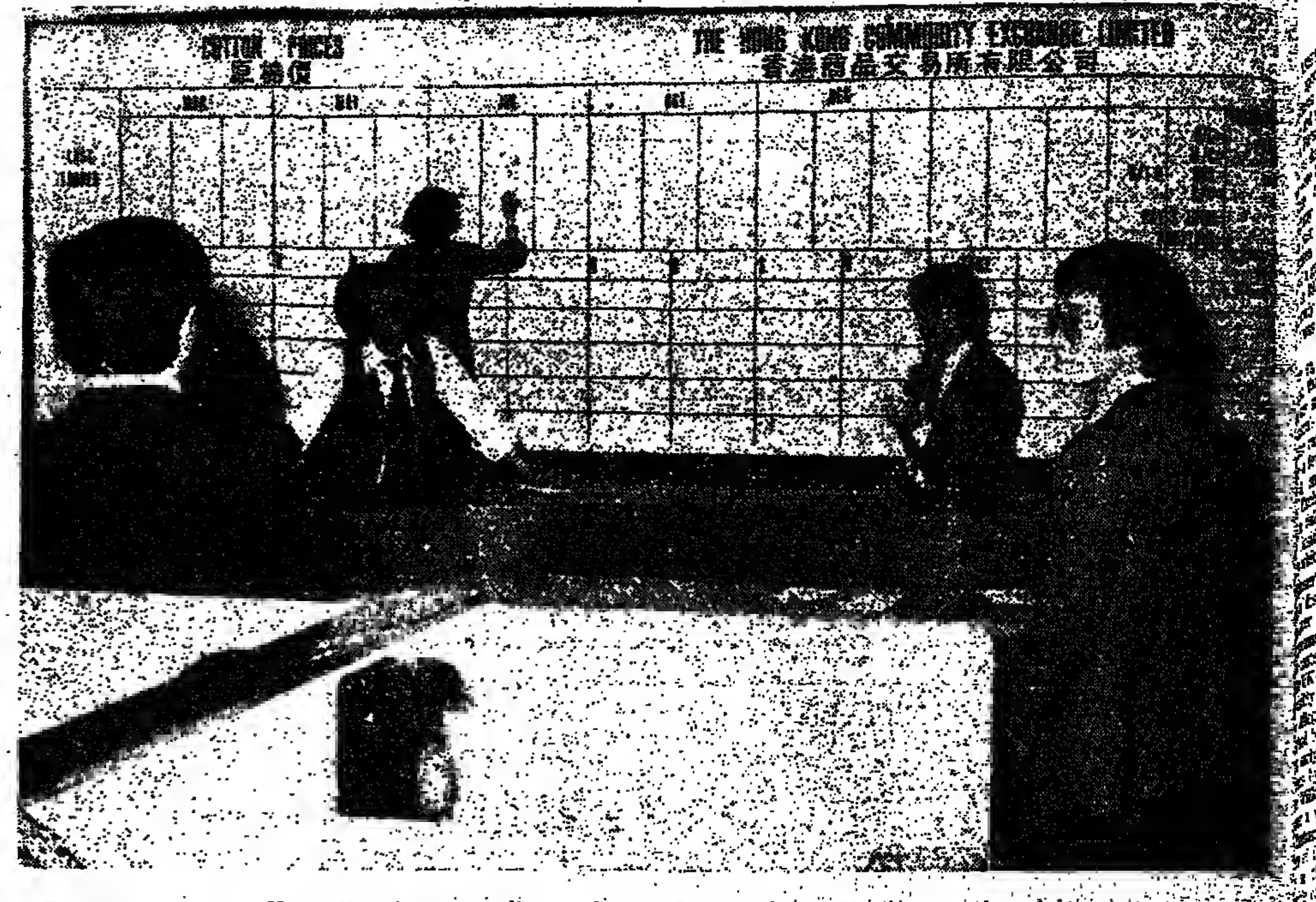
The gold futures contract in Hong Kong is likely to match broadly those used in New York, Chicago, London and Singapore and will almost certainly be denominated in U.S. dollars (though Hong Kong dollars have been considered) for lots of 100 troy ounces.

Recent rises in the gold price has made 100-troy-ounce lots expensive, however, and the figure may be scaled down. Delivery of the Hong Kong traded gold will almost certainly be in London.

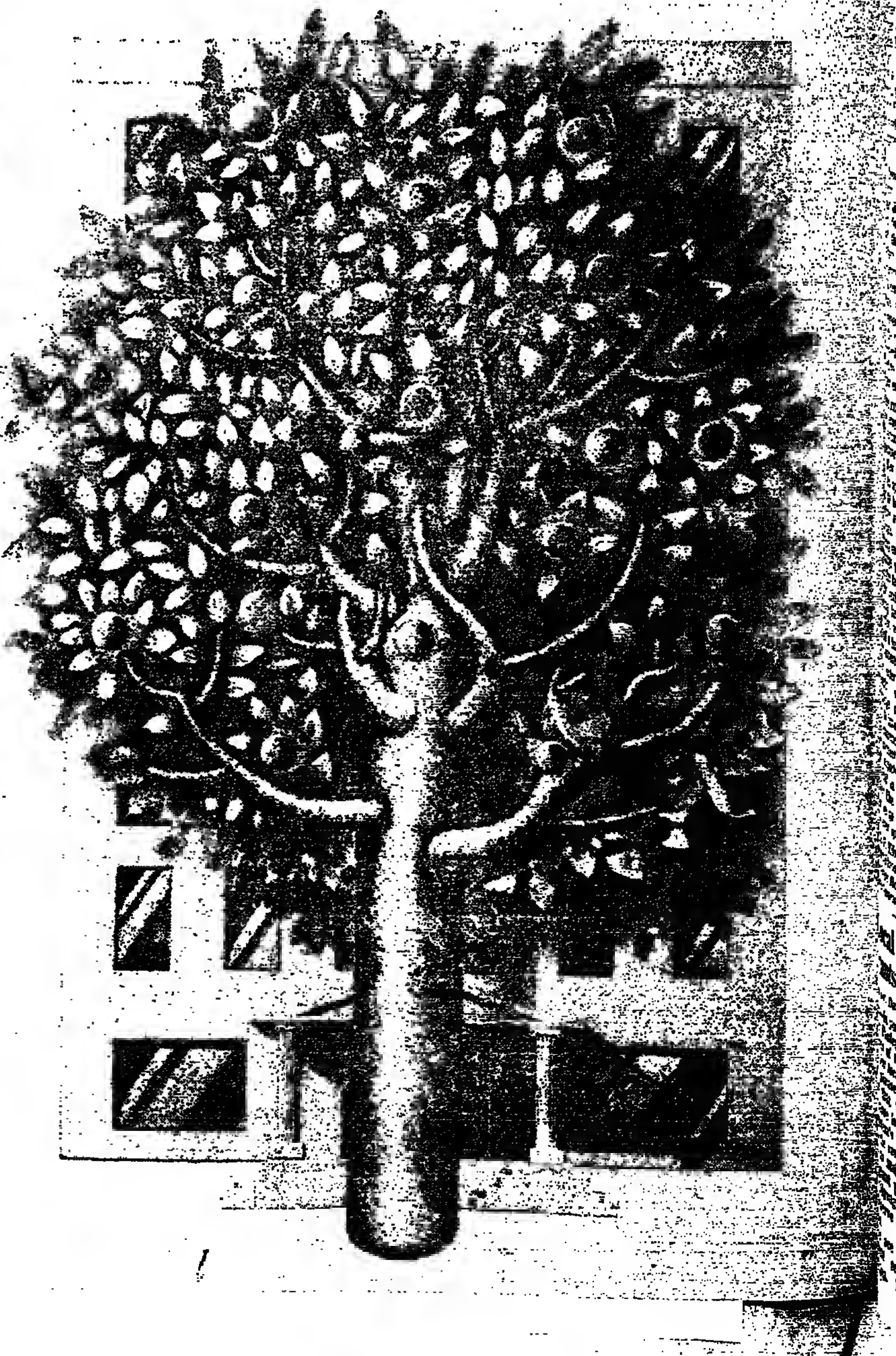
The margin at which exchange members trade will also need deciding. In view of the extreme price volatility of gold and the way various exchanges have had to top up their margins in recent months, the margin requirement is likely to be stringent compared to other commodities already traded in Hong Kong.

While the new market in Hong Kong expects to pull back a good deal of the business which has gone to Singapore's futures market and some of the 25 per cent or so of U.S. gold futures market deals which originate in Hong Kong, Mr. Scales admits Singapore's recent decision to cut taxes on offshore gold dealing to 10 per cent (while Hong Kong retains a 17 per cent tax rate on such profits) could influence the degree of shift between the two centres.

A.R.



Futures trading at Hong Kong's commodity exchange has so far centred on cotton (above), sugar and soyabeans. A potentially lucrative new market in gold futures is scheduled to open in the near future.



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-LEGHENY LUDLUM'S MOVE FOR WILKINSON MATCH

BY ANDREW FISHER

On the razor's edge of a takeover

AMERICAN Independence approached last week, kinson Match, the major UK r and match group, was told a Pittsburgh steel company its days of corporate free- were likely soon to be over. nce the U.S. company, gheny Ludlum, already s just over 44 per cent of kinson after a deal that ed a good deal of City ran- in 1978, the stock market hardly stunned by the news it was now planning a full

ven so, it was not widely ght that Allegheny would e its move so early, until kinson's shares began a matic run-up on the London ket a few days ahead of the 3 announcement. The k Exchange is likely to e a full inquiry into pos- e insider dealings, an vity which is now illegal.

ilkinson's fortunes have n a distinct turn for the se over the past year and circumstances of Alleg- y's contemplated bid illns- e the UK company's unhappy erability to controversy.

or Allegheny made clear it had been forced to rush an early statement of its ntions by the sudden rise the Wilkinson share price over a week ago. If the k Exchange does find clear ence of illegal share trans- ons in the market, those onsible could be the first to prosecuted under the new panies Act.

hat, however, is no concern Wilkinson now, nor of gheny which would have to out some £27m to share- lers in the UK group if the cash offer per share being idered is translated into a al bid.

t that level, the whole of kinson Match is valued at n and the U.S. company has that it would want its new uisition to be run as at ent and with the same agement.

If present City takeover rules had been in force early in 1978, Allegheny would not have been allowed to own more than two-fifths of Wilkinson without making a full offer to all of its shareholders.

The way in which the transaction was conducted raised many hackles in the City and among leading financial institutions, and the terms were later revised so as to gain a measure of general acceptance.

The story began when Allegheny marched in boldly at the end of 1977 and paid over the market price—260p against the prevailing 210p — for the 29.9 per cent of Wilkinson previously owned by Swedish Match.

At that stage, Allegheny had

Allegheny's plan for Wilkinson to buy True Temper raised an outcry and led to a change in the Takeover Code

breached neither the letter nor the spirit of the Takeover Code, but it was its next move which generated all the heat and led to an eventual change in the code.

The plan was for Wilkinson to buy a subsidiary of Allegheny the True Temper garden tools and sports goods company, in return for shares which would have given the U.S. group a controlling 51 per cent stake without making a formal offer to shareholders.

In the wake of the resulting outcry, this was scaled down to the present 44.4 per cent and Wilkinson duly emerged as the owner of True Temper, which made a major contribution to profits until last year's decline.

At Wilkinson Match, the management is not over-keen to speak about the recent past, whether it concerns the initial entry of Allegheny or, more sensitively, last September's acerbic exchanges in its own boardroom.

These led to the embarrassing departure from the chairmanship, and later from the Board, of Mr. Denys Randolph, a member of the family which built up the Wilkinson Sword company which then merged with British Match in 1973.

Mr. Randolph had pointed to the worsening financial position of Wilkinson, since borne out by its latest results, and complained that his ideas were not being listened to by the executive team, which he wanted to augment.

Since then and following a settlement of the legal actions which each side had initiated against the other, Mr. Randolph has become a good deal more muted. At the time, after refusing a £210,00 consultancy offer to leave the Board quietly, he said: "I have been at odds with executives who are linked with the Americans."

This was a clear reference to Mr. Christopher Lewinton, Wilkinson's chief executive and a member of the Allegheny board, and Mr. Anthony Shanagher, the finance director who is also closely involved in the U.S. end of the business.

Last week, Mr. Randolph said he was glad that Allegheny had finally shown its hand. "I think it's a good thing to get rid of any more uncertainty. I hope this will settle things and that Wilkinson will begin to flourish again."

At the moment, Wilkinson certainly does not look over-healthy, with pre-tax profits down more than a quarter to £14m in the 12 months to March 31—due to a change in year-end, there are six more months in this accounting period—and a lower dividend.

It is in the razor market, an area where Wilkinson has made significant breakthroughs in the past, that the company is being most heavily battered. America's Gillette is providing stiff competition at the upmarket, higher profit margin end, and BIC of France is eroding the market from below with its disposable product.

Ironically, Wilkinson is up against these same two companies in two other major product sectors, pens and lighters. In its personal products division, losses shot up alarmingly in 1979-80 from just over £1m to more than £4m, with two-thirds of this attributable to razors.

Around half of the shaving losses stemmed from the tough U.S. market, where Wilkinson has seen its share drop from around 8 per cent at the end of the 1960s to about 4 per cent.

BIC has also made its presence uncomfortably felt in the U.S. where it has startled Gillette with its aggressive surge into the cheap, disposable end of the razor business, as well as cutting into the low price pen and throw-away lighter markets.

On the hardware and houseware side, which takes in garden tools and includes the True Temper interests, Wilkinson suffered a drop from £7.2m to £4.1m in operating profits, while matches and lighters slipped from £12.6m to £12.

In all of these areas, explained Mr. Lewinton recently, Wilkinson is taking action. "We are going to have a leaner, tighter company." In one troubled sector, writing instruments—namely its 56 per cent stake in the Scripto company in the U.S.—a tiny £177,000 profit was made after a near £900,000 loss in the previous period.


Mr. Christopher Lewinton (left), chief executive of Wilkinson Match and Mr. Robert Buckley, chairman of Allegheny Ludlum

Where Wilkinson intends to concentrate most of its thrust over the next few years is the safety and protection side, where operating profits were slightly higher at £5.4m. In the shaving market, on the other hand, the aim is to consolidate rather than expand.

Wilkinson has brought in several new managers since late last year, chief among them being Mr. John Bloxcidge, formerly with the U.S.-controlled Prestige Group, and Mr. John Hope who runs the safety and protection division.

Although recent consumer audit figures show that Gillette's lead in the UK razor market is a clear one, Wilkinson is convinced that its new fighting spirit is paying off. "We are trading back to brand leadership," claimed Mr. Bloxcidge.

Figures for the period from November to April and based on actual cash sales show that Gillette had nearly 51 per cent of the UK market, Wilkinson Match nearly 36 per cent, and BIC just over a tenth. But in the last few months, Mr. Bloxcidge said: "We have picked up about three market share points."

In the safety and protection field, Wilkinson is hopeful of being able to penetrate more deeply into the U.S. market in association with Allegheny. Wilkinson's main company in this field is Graviner, which makes fire and explosion protection systems for civil and defence purposes.

Early last year, Wilkinson joined with Allegheny to buy HTL Industries, a leading producer of aircraft fire extinguishing systems based in California. Wilkinson's stake is 20 per cent.

"These are high technology products with good margins," Mr. Lewinton said of the safety and protection range, though he was slightly regretful that the public knew relatively little about this side of Wilkinson's activities.

As well as razors, where Wilkinson made a considerable reputation through the quality of its blades in the 1960s, the public probably knows the company best for its garden tools. The company currently has around 37 per cent of the non-mechanical market in Britain and now has its eyes on expansion in America.

This it hopes to achieve through True Temper, which is firmly ensconced as brand leader, in the middle range of the market, below the sector to which Wilkinson hopes to gain greater access.

One reason why this side of its business put up a less than glittering performance in the past 12 months was the UK engineering strike which seriously affected output.

But there were also problems in the U.S. with both wholesalers and retailers cutting stocks on a large scale because of the worsening economic climate. Unluckily, True Temper also suffered in the North-East of the U.S. from the lack of snow last winter, which led a overstocking of snow tools in the trade.

Just how Allegheny Ludlum, which more than doubled net earnings last year to $71.5m and is best known in the U.S. for its special steels, intends to follow through on Wilkinson's strategy for recovery remains to be seen.

It is hard to see Allegheny taking much interest in matches, for which Wilkinson has great hopes of both Brazil, where it is investing steadily, and South Africa.

That leaves shaving, hardware and safety and protection as the main fields in which Allegheny could attempt to add its own financial and policy-making weight to that of Wilkinson Match.

Wilkinson pioneered the bonded shaving system in 1970 and its desire to be part of a bigger grouping within which it could better exploit such innovations was a major reason for its merger with British Match.

Mr. Lewinton, who travels to the U.S. up to 10 times a year on Wilkinson business and tends to talk in dollars rather than pounds, said the company clearly needed a new American partner in this market after the expiry last year of its distribution agreement with Colgate-Palmolive.

With its Contour shaving system, using a swivel-head, Gillette is ahead of Wilkinson, which introduced a similar product called Profile some months later.

Whether Wilkinson really is catching up, at least in the UK shaving market, will be shown in future profit figures, though Mr. Lewinton warns: "Don't look for goodies tomorrow." Allegheny's move last week has posed some new questions about Wilkinson's future direction.

Letters to the Editor

-unding -xports

-m the Managing Director, -ort Finance Consultants

-r,—While we are continu- being reminded of the -lems facing out exporters -use of high interest rates a strong £, very few com- es seems to appreciate the -wing facts.

-bout 80 per cent of our -rts are funded out of -ling overdrafts. Against an -age base rate of 13.70 per p.a. throughout 1979, how- the average interbank on which a Euro-dollar -draft would have been -d was approximately 11.50 cent p.a., a Euro-guilder -draft 9 per cent p.a., a -Frer ch franc overdraft 0 per cent p.a. and a Euro- -sche Mark overdraft 6 per p.a. On May 19, 1980, -nst a base rate of 17 per p.a., the interbank rate on -h a Euro-Swiss franc over- -t would have been based approximately 5.85 per cent

-y drawing down the Euro- -ency overdraft once a -ter throughout 1979 and -ng forward the "draw -n." the nett rate could - been reduced still further approximately 9 per cent 2 per cent p.a., 7.50 per p.a. and minus 5.50 per respectively. On May 19, 1 the nett rate for a Swiss -c overdraft could have been -ced to approximately minus per cent p.a.

-hese rates make a nonsense -he cry that our exporters -t automatically become less -petitive with a rising spot . Few companies, however, -n to appreciate the advan- -s to be had through the -ctive use of the foreign -hange, forward and Euro- -ency markets. Indeed, it is -range paradox that having -t the largest money market -he world here in London, -ring be widest range of -lities, we make very little -of it for the benefit of our exporters.

- order to achieve these -efits without incurring -hange rates it is neces- - to invoice export sales in currencies concerned. At moment 70 per cent of all exports are still being -iced in sterling, which is -er like saying that when- we go abroad most of us ever speak English!

-D. P. Edwards,
-ort Finance Consultants,
-tinion House,
-tholomew Close, EC1.

-ocal authority -rants

-m Dr. David N. King

-r,—In your issue of June 30, -in Pauley makes clear his -uons of the proposed block -t for local authorities with - phrases as "Ministers -pt that this is nonsense," - more ludicrous aspects of system's working" and "it -is the random use of multi- -rs to make it work." The -k grant proposals certainly -l tidying up, but overall - deserve a more favourable -tion.

-here are two classic types grant scheme for local -orities. In the first, the principle is that each area should be able to spend a specified sum (per head) if it sets a specified rate poundage, and so each area receives a grant equal to the difference between the specified expenditure and rate yield it would obtain if it set the specified poundage. The grant paid will be the same irrespective of the poundage the area actually sets. Naturally, areas with low rateable values are more dependent on grants than areas with high rateable values, and this gives rise to a major disadvantage of the scheme, for poor areas will find it harder to vary their expenditures by varying their poundages than rich ones. If two areas set a poundage 10 per cent (say) higher than the standard one, then the richer area will have a higher total income than the poorer one, a somewhat inequitable situation.

In the second scheme, the amount of the grant that an area would obtain if it set the specified poundage is calculated as before. Now, however, it will obtain that amount only if it actually sets that poundage. If it sets a *higher* or *lower* poundage then its grant is raised or lowered in proportion. This overcomes the objection to the first scheme, for each area finds both its rate and its grant income, and hence its total income, proportional to its poundage. Unfortunately, the ease with which authorities can raise expenditure may produce a level of aggregate local spending higher than desirable for a given state of the economy.

The present rate support grant is a mixture of these two types and so suffers from the disadvantages of each. A better scheme would ensure that any two areas with the same poundage will have the same total income, but be so devised that progressive rises in poundages result in ever smaller increases in total income, thereby discouraging "excessive" spending. The present block grant proposals attempt to do this, albeit in a cruder and more clandestine way than necessary. In such a scheme, a high-spending, rich area may be faced with a negative "grant," though it will face the same poundage to expenditure relation as all other areas, so this drawback hardly seems serious. If, however, Robin Panley can construct a scheme with no drawbacks at all, then please ask him to tell us what it is!

(Dr.) David N. King,
University of Stirling,
Stirling, Scotland.

Telling a clear story

From Mr. L. Rockley.

Sir,—Your article on company reporting (June 27) and its choice of the top ten companies appears to have missed a number of important points in the evaluation of company reporting.

I refer to the use of accounting terminology which is still a major obstacle to a reasonable understanding of corporate reports—by the non-specialist. The so-called explanatory notes, which accompany profit and loss accounts and balance sheets serve to assist the specialist only, but result in compounding the confusion of the non-specialist. Furthermore, account- [illegible] customers.

There is a need for special reports designed to satisfy the requirements of the many different interested parties: these reports should be published more frequently than the once per year, outdated annual pictorial accounts booklet. Let us have reports which meet the needs of the separate markets.

If you look at the Hoechst company reports you will find a glossary of financial terms which assist the reader to find his way through the mists of financial terminology. Also the Eaton Corporation of the U.S.A. has produced a tape recording which explains the annual accounts for the use of blind people, and others with impaired sight. Clearly a member of the board or the top management team must be charged with the duty of continually "putting the company's story over" to the satisfaction of all who are, or may be, affected by the corporate operations now and in the future.

L. E. Rockley,
(Reader in Finance),
Department of Business Studies,
Coventry (Lanchester)
Polytechnic,
Priory Street, Coventry.

British Telecom structure

From Mr. M. Corby

Sir,—The news that PO Telecommunications is to pursue its investment programme (July 1) highlights the need for a reformed financial structure for the new corporation British Telecom which will be set up under legislation due to be introduced shortly.

Over the last decade real investment by PO Telecommunications has fallen. In 1970 net expenditure on fixed assets was £370m, this peaked to £490m in 1973. Thereafter there was a year by year decline to £260m in 1979 (all figures at 1970 prices). Whatever the faults of management or the difficulties caused by unions this record of declining investment is the underlying cause of so many of the current deficiencies of the telecommunications services. The nub of the problem is that loans for telecommunications are treated as part of the public sector borrowing requirement. This however, is inappropriate as PO Telecommunications is a wealth creating rather than a wealth absorbing industry. Moreover, with its record of growth and profitability it does not need Treasury backing for loans.

The logical financial structure for British Telecommunications would be a mix of equity and loan capital. Equities are particularly suitable for financing long-term capital investment projects as shareholders are prepared to accept modest dividends in the early years in exchange for the prospect of capital growth and dividend increases later. Such a financial structure is that it would give management the flexibility to align investment with customer demand and free it from having plans disrupted by extraneous causes—under the present system local authority overspending can very quickly have an impact on telecommunications investment.

The benefits to the nation would also be considerable. Firms of every size currently find themselves constrained by delays in installing lines and equipment, and frustrated by poor quality lines. The application of advanced office equipment and computer technology is increasingly dependent upon the telecommunications network. Thus if it is not upgraded quickly every sector of the economy will suffer, but especially those involved in advanced technology. Thus the performance of British Telecom over the next few years will determine more than any other single factor, the sort of economy the UK will have in the 21st century. Restriction on Telecommunications investment will result in the UK missing out in the technological revolution, and that is the most telling reason of all for giving British Telecom freedom from Government restrictions in raising its capital.

M. E. Corby
Telecommunications Users' Association
Tress House,
3-7 Stamford Street, SE1.

Back your own judgment

From the Librarian,
Teesside Polytechnic

Sir, — An advertisement appears in your paper of June 28 for a director-general for the Confederation of British Industry. Replies, as is all too often the case these days, have to be sent not to the organisation seeking the candidate but to a firm describing themselves as "management consultants" and which Men and Matters describes as a "head-hunting firm."

For many years past, much of British industry and business seems to have been incapable of selecting staff without the use of such "consultants." What is the role of and justification for such unnecessary intermediaries? If industrialists have no confidence in themselves to carry out this primary function of selecting their own staff and when the same failure has apparently spread to the organisation seeking to speak for them, is it any wonder that we are in serious economic trouble? What hope is there of any economic or national recovery when the people at the top of industry abdicate their primary duties and responsibilities?

These represent by own views as a former employee in industry and not necessarily those of this address.

R. Moss,
Teesside Polytechnic,
Middlesbrough, Cleveland.

Today's Events

GENERAL

UK: National Union of Mineworkers annual conference opens, Eastbourne (until July 11).

Mr. David Howell, Secretary for Energy, is guest of honour at Anglo-Venezuelan Dinner, Savoy Hotel, London.

British Medical Association annual representative meeting, Civic Centre, Newcastle upon Tyne (until July 11).

Annual conference of Women's Farming Union, Frenchley.

Queen and Duke of Edinburgh attend reception at Canada House to mark 100th Anniversary of the establishment of the Canadian High Commission in London.

Duke of Edinburgh, as Chancellor of the University of Salford, attends private viewing of the International Photographic Arts Exhibition at the University.

Prince of Wales attends the Louis Armstrong Anniversary Concert, in aid of the Mountbatten Memorial Trust, Royal Festival Hall, London.

July session of General Synod, Church House, Westminster.

Opening day of Festival of the City of London (until July 19).

Overseas: Mr. John Nott, UK Secretary for Trade, begins five-day visit to Nigeria to meet key Ministers and address the Nigerian-British Chamber of Commerce in Lagos.

European Parliament in session, Strasbourg.

French President Valery Giscard d'Estaing begins five-day official visit to West Germany for talks with German leaders within the framework of the Franco-German treaty.

Egypt, Israeli and U.S. talks in Washington on restarting negotiations on Palestinian autonomy.

PARLIAMENTARY BUSINESS

House of Commons: Government announcement expected to request MPs to accept smaller pay increase than recommended by Lord Boyle's Top Salaries Review Board. Private member's motion on problems of youth. Civil Aviation Bill, remaining stages.

House of Lords: Employment Bill, report stage. Third readings of Magistrates Courts Bill and Highways Bill. Eurocontrol (Immunities and Privileges) Order. International Organisations (Immunities and Privileges) Order.

Select Committees: Treasury and Civil Service on monetary policy: Bank of England officials (Room 15, 4.30 pm). Public Accounts on Welsh Development Agency accounts: Welsh Office and Welsh Development Agency (Room 16, 4.45 pm).

OFFICIAL STATISTICS

Wholesale price index (June provisional).

Housing starts and completions (May).

Hire purchase and other instalment credit business (May).

Personal income, expenditure and saving and company profits (first quarter).

Retail sales (May—final).

COMPANY RESULTS

Final dividends: Associated Leisure, Colmore Investments, Heywood Williams Group, May and Hassell, R. W. Toothill.

COMPANY MEETINGS

See Week's Financial Diary on Page 19.

SPORT

Cricket: Somerset v West Indies, Taunton.

Athletics: Team announcement for AMOCO-BAAB Games at Crystal Palace on July 13.

Golf: Open Championship, regional qualifying rounds, six venues.

F. H. Lloyd still suffers from depressed trading

TRADING conditions at **F. H. Lloyd Holdings** continue to be depressed both at home and abroad, Mr. R. H. Foster, the chairman, tells shareholders in his annual report.

The group's costs are being particularly affected by the recent swingeing increases in energy prices while sales prospects are being reduced in export markets.

The general industrial outlook makes it extremely difficult to predict the outcome of the current year's trading but the introduction of the mini-mill towards the end of 1980 is expected to begin to contribute to group profit, the chairman says.

For the year ended March 29, 1980, external sales rose from £63.5m to £64.1m but pre-tax profits were £2.37m against £3.42m after higher interest and severance payments.

The chairman says that research indicates that throughout mainland Europe and the UK, there exists a surplus foundry capacity some 30 per cent in excess of foreseen demand.

While three of the group's four foundries achieved satisfactory results, the heavy foundry at Wednesbury continues to suffer from the serious lack of demand from the energy, earthmoving and ordnance market sectors.

The service companies traded satisfactorily and while similar results in the current year are expected, the effects of curtailment of West Midlands industrial activity have to be recognised, the chairman says. *Order books* in engineering are generally satisfactory, he adds.

The mini mill project is proceeding well and its start up is expected for September as originally planned. The Board's confidence in the project's potential benefit has been strengthened by trends that have developed since last year.

Meeting, Great Eastern Hotel, EC, July 30 at noon.

BOARD MEETINGS

The following companies have notified dates of Board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Finals—Associated Leisure, Colmore Investments, Heywood Williams, May and Hassell, R. W. Toothill.

FUTURE DATES

Interims—	
Gestetner	July 15
Meggitt Holdings	July 21
St. Andrew Trust	July 24
Sharpe and Fisher	Aug. 28
Finals—	
Avenue Close	July 8
Cook (William) (Sheffield)	July 31
Daejan Holdings	July 10
Diamond Stylus	July 14
Graig Shipping	July 16
Jones Stroud	July 15
Mitchell Somers	July 10
Monk (A.)	July 24
Nchanga Cons. Copper Mines	July 18
Trustees Corp.	July 17
Warner Holidays	July 14
Watson (R. Kelvin)	July 8

RECEIVER FOR D. MACDONALD

A receiver has been appointed to **Donald Macdonald (Antartex)**, tanner, manufacturer and retailer of sheepskin coats and jackets, of Dumbartonshire.

The receiver, Mr. Frank Mycroft, a Glasgow chartered accountant, said his appointment was necessitated by an acute cash shortage. This resulted partly from unprofitable business in America and partly from high stocks and difficult trading conditions in UK retail trade.

Greenfields up slightly at midway

PRE-TAX PROFITS of **Greenfields Leisure**, the retail and wholesale leisurewear and camping group, for the six months to April 30, 1980 are up slightly from £438,000 to £444,000 on turnover of £8.95m, against £7.29m.

The directors say that the marginal profit improvement reflects the general decline in the retail industry in recent months and it is not possible to anticipate an up-turn in trade.

In the face of an evidently deepening recession, the board is pessimistic regarding the current year's results. However they are maintaining the interim dividend at 0.84p — last year's total was 2.15p from record pre-tax profits of £1.06m.

First-half tax charge is £231,000 (£228,000) giving earnings per share of 1.57p against 1.54p.

High interest rates continue to affect profitability calling for strict control of costs and the maximisation of cash flow. In these conditions the board is pleased the group is maintaining its full market share and all divisions are well placed to benefit from any economic upturn.

Sutcliffe Speakman losses rise

CONTINUING PROBLEMS associated with brick-making plant supplied to the Middle East have brought increased losses for Sutcliffe Speakman and Co., engineer, in the year ended March 31, 1980.

The pre-tax deficit deepened from £407,000 to £503,000, including costs relating to the Middle Eastern contracts of £322,000 (£700,000). But the board states that the group is nearing the end of these problems.

Also included in the loss are sharply increased interest charges of £271,000 (£103,000). After tax credits of £668,000 (£218,000) and an extraordinary credit this time of £79,000, there is an attributable surplus of £246,000 against a loss of £190,000. Earnings are shown as 6.6p (nil).

The dividend is again passed —last year a single payment of 1.3164p was made at the interim stage.

The chemical plant side performed satisfactorily during the year, say the directors, and the carbon division had another excellent year, although it was appreciably affected by the adverse dollar exchange rate.

Group turnover was £157,000 ahead at £7.59m.

WESTERN DOOARS TEA HOLDINGS—Dividend for 1979, 4p (5.24p) for 1979. Pre-tax loss for 1979 £43,664 (£7,966). Attributable loss £133,782 (£611,599) after tax etc. Loss per share 12.90p (6.87p).

ASSAM DOOARS HOLDINGS—Pre-tax profit for 1979 £53,923 (£15,632). Attributable loss £93,549 (£447,156) after tax, etc. Loss per share 9.78p (12.59p). Dividend 6.0p (8.5057p).

INVEST. TRUST OF GUERNSEY—Net asset value per 50p share at June 30, 1980, 225p (201 at December 31, 1979).

R. Moss falls in second half

A SECOND half drop from £255,910 to £138,617 has left the taxable surplus of Robert Moss down from £508,418 to £457,091 for the year ended March 31, 1980.

Turnover of this plastic injection mouldings manufacturer was ahead at £3.37m, compared with £2.73m.

At halfway the directors said they were not in a position to assess whether or not the interim profit rise would be continued in the second half, because of effects of the engineering strike and the possibility of further industrial unrest in the coming months.

They now say that the current austere trading conditions are persisting into 1980/81 with little indication of any improvement, but they remain confident in the future of the company.

And with the return of stable trading conditions, the directors would expect profits to increase substantially.

After the year's tax charge of £130,731, against £84,902, net profits came through at £326,360 (£423,516), giving earnings of 3.26p (4.23p) per 10p share.

The dividend, effectively lifted to 1.596p (1.5298p) net with a 0.896p final, absorbs £159,600 (£152,981). The amount retained was £166,760 compared with £270,535.

Cluff joins in Seventh Round

Cluff Oil, the independent exploration company, has formed *two subsidiaries to join in new* consortia for the seventh round of North Sea licence applications and has sold all their unlisted shares to institutional and private investors.

The Moray Firth Exploration Company has issued 4,350,000 ordinary shares of £1 each, payable as to 10p per share with the balance subject to call. The Channel Exploration Company has issued 2,700,000 ordinary shares of £1 each with 10p paid so far and the balance also subject to call.

Mr. Algy Cluff, chairman of Cluff Oil, said yesterday that the £687,600 raised after expenses would be used to meet costs and expenses of seismic data and the licence application.

Moray Firth Exploration will have a 40 per cent stake in the Moray Firth consortium. Cluff Oil interests will total 50 per cent of this consortium directly and indirectly and the remaining 10 per cent is to be held by Matheson and Company.

'Legal quibble' over Milford Docks meeting

A legal tussle is developing between the board of Milford Docks and three shareholders who are seeking to be elected to the board.

The three men, Mr. Faik Ezen, Mr. John Knowles, and Mr. James Thomson-Moore notified the board of their intentions on June 27.

On July 2 the board wrote to shareholders postponing the annual meeting due to be held tomorrow while it quizzed the men about their backgrounds and reasons for wanting to join the board.

Mr. Charles Smith, the chairman of Milford, admitted that a "legal quibble" existed which had still to be resolved. Under normal company law, annual meetings could not be postponed by decree of the board, but Milford Docks was incorporated under a special Act of Parliament in 1875 and this might have a bearing on the case.

In the circumstances he advised shareholders to turn up at the Hyde Park Hotel at noon tomorrow where they would "be welcome whether a meeting was held or not."

CU investment bond

The Commercial Union Assurance Company, one of the largest composite insurance groups in the UK, *is extending its unit*-linked life operations with the launch today of the Hand in Hand investment bond.

This is a single premium life bond, with investment in four funds; property, fixed interest and cash under the management of the CU and equities, a fund of National Westminster unit trusts managed jointly by CU and NatWest. Investors can switch between funds.

CU is, however, not offering a managed fund unlike all other unit-linked life operations by other groups.

It already offers an equity-*linked single premium* self-employed pensions plan — the Variable Annuity Plan — which it inherited when Northern Assurance was acquired.

CU also offers a regular savings scheme linked to NatWest Units—the Sunflower scheme. This latest move expands considerably the scope of its linked life operations.

The contract will be marketed through NatWest branches and through specialist brokers in this field. The minimum investment is £1,000 and the charges are normal for this type of contract.

SPAIN

1980 High	1980 Low		July 4 Price %
228	203	Banco Bilbao	226
258	217	Banco Central	253
220	203	Banco Exterior	212
230	200	Banco Hispano	228
137	118	Banco Ind. Cat.	120
175	141	Banco Madrid	141
282	237	Banco Santander	280
190	140	Banco Urquijo	156
238	208	Banco Vizcaya	237
209	200	Banco Zaragoza	206
106	75	Dragados	81
62	59	Espanola Zinc	60
66	53.2	Fecsa	59.2
40	24	Gal. Preciados	25
71.7	58.7	Hidrola	65
68.2	57.5	Iberduero	61
120	100.7	Petroleos	107
92	59	Petroliber	87
115	107	Sogefisa	107
63	51.5	Telefonica	62
67.5	58.2	Union Elect.	64.5

INTERNATIONAL BONDS — BY FRANCIS GHILES

Window slams shut on many fingers

THE WOMEN'S final at Wimbledon, the regatta at Henley and the U.S. independence day celebrations all took their toll last Friday. The Eurobond markets, particularly London, were virtually closed at the end of what had proved to be a quiet week.

For new issue managers there was little to celebrate. Most of the issues priced last week were so roughly treated in the grey market that the terms on which they were being offered to investors had to be improved, but this still did not do much to help the price of the bonds in the secondary market.

The Province of Nova Scotia and the Republic Steel bonds were among the more notable casualties: the amount of the first was trimmed by $25m to $50m, the coupon raised by ¼ per cent to 10¾ and the issue priced at a discount of ¼ of a point from the indication of par. These valiant efforts did not prevent the bond slumping five points below its issue price on the first day of trading, though it recovered later in the week to close on Friday at 96-½.

The coupon on the Republic Steel issue was boosted by ¼ of a point to 11½ and the bond priced at a very low 97½.

This did not prevent the issue closing at a very sickly 95½-6 last Friday. The underwriters were not asked to take up the full amount of paper they had subscribed.

The $50m tap issue for Oestrreichische Kontrollbank was priced at a more realistic 98½ to yield 10.40 per cent. This is consistent with this borrower's policy of trying to ensure that all its issues trade at a reasonable level in the secondary market.

It was not immediately clear what Westdeutsche Landesbank would do with its City of Montreal issue: by Tuesday the 10½ per cent bond to 1987 was trading at a discount of 6-6½ points in the grey market. By Friday this discount from an indicated price of par had only narrowed to 5 points.

At that level it yields 11.37 per cent. This mandate was won as a result of fierce competitive bidding and the coupon obtained by the borrower was evidently about ¾ per cent out of line with the market.

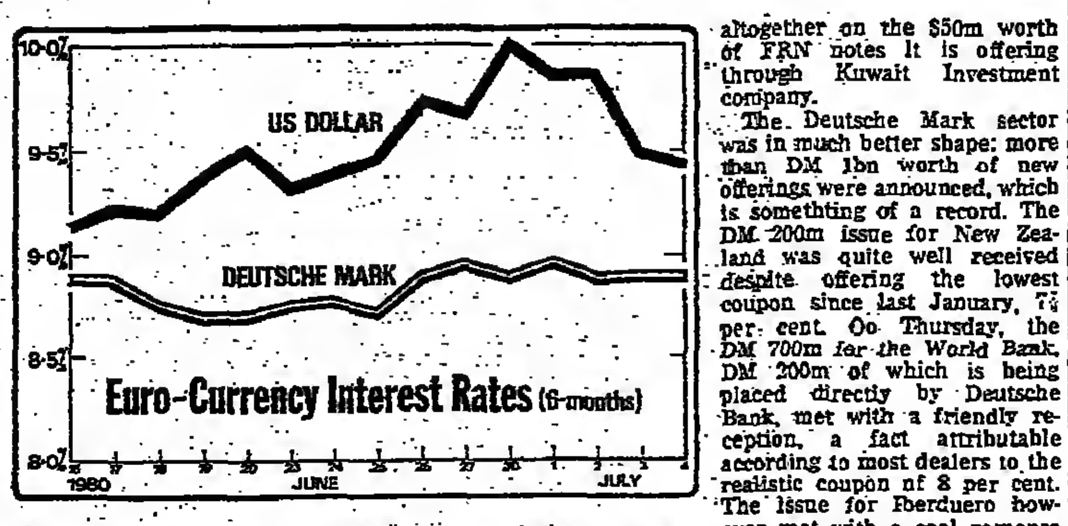
Prices of seasoned straight dollar issues firmed up at the end of the week: the easing of credit controls in the U.S. announced on Thursday had a beneficial effect both in the New York and the Eurobond markets. Interest rates eased at the end of the week but trading activity remained thin.

As is often the case when the fixed interest rates sector is sultry, more interest was shown by investors in buying FRN issues. Nordic Bank was thus able to increase the FRN it was arranging for Svenska Handelsbanken by $5m to $35m while Bank of Tokyo (Curaçao) did away with the minimum coupon altogether on the $50m worth of FRN notes it is offering through Kuwait Investment company.

The Deutsche Mark sector was in much better shape: more than DM 1bn worth of new offerings were announced, which is something of a record. The DM 200m issue for New Zealand was quite well received despite offering the lowest coupon since last January, 7¾ per cent. On Thursday, the DM 700m for the World Bank, DM 200m of which is being placed directly by Deutsche Bank, met with a friendly reception, a fact attributable according to most dealers to the realistic coupon of 8 per cent. The issue for Iberduero however met with a cool response and its coupon was increased by ½ per cent to 9 per cent.

Prices of seasoned issues eased by about ½ a point during the week. Investors concentrated their attention on new issues and there is every sign of a steady flow of funds coming into Germany to acquire such paper.

A rare financial instrument made its appearance last week, a Eurosterling bond convertible into U.S. dollar shares for Kollmorgen Corporation.



Borrower	Lead manager	Issue priced at	Price*
Prov. of Nova Scotia	McLeod, Young, Weir	99¾	96-½
United Biscuits	Morgan Grenfell	100	94½-5½
Lonrho	Standard Chartered	100	95½-6
Republic Steel	CSFB	97½	95½-6

* Secondary market price given by lead manager Friday, July 4.

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead manager	Offer yield %
U.S. DOLLARS							
‡Province of Nova Scotia	50	1990	8½	10¾	99¾	McLeod, Young, Weir Int.	10.78
‡Utd. Biscuits Fin. BV	50	1990	9	11	120	Morgan Grenfell	11.00
‡Lonrho Intl. Fin. NV	40	1988	8	12	100	Standard Chartered Merchant	12.00
†Hapoalim Intl. NV	50	1985	5	5¼Φ	100	NM Rothschild & Sons	5.576Φ
‡Republic Steel O'seas Fin. NV	100	1988	8	11½	97½	CSFB	11.70
‡†Svenska Handelsbanken	35	1987	7	5Φ	100	Nordic Bank	5.063Φ
‡Oesterrich. Kontrbk	50	1985	5	10	98½	Orion	10.00
City of Montreal	57.5	1987	7	10½	100	West LB	*
†Bank of Tokyo (Curacao) NV	50	1987	7	—	—	KIC	
D-MARKS							
Iberduero	100	1990	88½	9	100	Dresdner Bank	9.00
New Zealand	200	1988	8	7¾	100	Commerzbank	7.87
§The Daiei	130	1987	6½	6	100	BHF Bank	*
World Bank	700	1990	10	8	99½	Deutsche Bank	8.13
GUILDERS							
‡Bank Mees & Hope NV	75	1985	5	10	100	Bank Mees & Hope, KIC	10.00
SWISS FRANCS							
Banque Ivoirienne de Develop'm't Indust. (g'teed Ivory Coast	20	1990	—	7	100	Banque Gutzwiller	7.123
‡**Arbed	40	1985	5	6	100	Banca della Sviz. Ital.	6.00
‡**Kloeckner Fin.	40	1985	5	6¼	100	Banca del Gottardo	6.25
‡**Oesterrich. Postparkasse	50	1987	6	5Z	100	Kredietbank (Suisse)	5.75
‡Nippon Tel. & Telephne	100	1990	—	5½	100	SBC	5.50
LUXEMBOURG FRANCS							
Solvay Finance NV	500	1987	7	10½	100½	Banque Gen. du Luxemb.	10.697
STELING							
Kollmorgen Int. Fin. NV	6.5	1995	—	*	*	Merrill Lynch Int. S G. Warburg	*

* Not yet priced. ‡ Final terms. ** Placement. † Floating rate note. Φ Minimum. § Convertible. †† Registered with U.S. Securities and Exchange Commission. ¶ Purchase Fund. Note: Yields are calculated on AIBD basis.

CREDITS — BY PETER MONTAGNON

An electric success for Brazil

BRAZIL'S NEW policy of paying a sharply higher spread on medium-term international borrowings has paid off. Its latest financing, for the electric utility, Eletrobras, has been raised to at least $400m from the original target of $300m.

This is in stark contrast to two previous credits, for the oil concern, Petrobras, and the development bank, BNDE, which met with a very hesitant response from the market. Both loans were at substantially lower margins than the flat 1⅞ per cent over eight years which Petrobras offers.

They were followed by a more successful credit for the Itaipu hydroelectric project, of which a $100m, 10-year tranche was syndicated at a margin of 1⅞ per cent by Swiss Bank Corporation. By the time it was signed last week about $75m had been raised from the market.

The Eletrobras deal, which pays a full ¼ per cent more in terms of spread, attracted even greater interest. By last Friday a total of $413m had been raised. This already assumes a cutback in the lead managers' commitments to $20m apiece from $40m originally and in the managers' commitments to $8m from $12.5m.

Still undecided last week was the question of whether to take the full amount from the market or to use the extra $13m to scale down even further the lead managers' commitments.

After such a conspicuous success it is unlikely that banks will be able to negotiate even higher spreads on Brazilian state borrowings in the short term. The Eletrobras deal for which Morgan Guaranty is agent thus bears at least temporarily the stamp of the benchmark.

Elsewhere, the meeting on July 3 of banks involved in the mooted jumbo loan to Poland resulted in a broad consensus that the starting off amount for such a credit could be only around $300m. One major bank has already turned the credit down flat while a number of others still await approvals from their credit committees.

The Poles have been seeking seven-year money at a spread of 1⅞ per cent, but the banks are likely to hold out for a higher margin when negotiations with Bank Handlowy resume. This could be as early as this week, but the speed with which the operation can be completed will depend very much on how far Poland is prepared to go in meeting the conditions set by the banks.

As already reported, Poland is now in the crucial stages of negotiations for a DM 1bn credit from German banks under the leadership of Dresdner Bank.

Overall, activity in the market was fairly flat last week, possibly reflecting the approaching holiday season. A number of important deals are in the pipeline, however. They include a $100m credit for the Philippines, a $250m credit for Taipower of Taiwan and a $120m credit for Public Power Corporation of Greece.

Bankers believe that the terms for the latter may be even finer than those obtained by the country's central bank in April for a $550m, eight-year credit at a flat margin of ⅞ per cent.

U.S. BONDS — BY DAVID LASCELLES

Fed credit move gives a boost

THE DECISION by the Federal Reserve Board to phase out the remains of its credit controls gave the market a much needed boost at the end of last week. But the future course of interest rates will depend largely on the outcome of this Wednesday's meeting of the Federal Open Market Committee.

The sharpness of the recession and the speed of the decline in interest rates since April had made it only a matter of time before the Fed abolished what was left of its last package. But the announcement on Thursday that they will be phased out over the coming weeks still had a sizeable impact: bond prices, which had been overwhelmed by a record volume of corporate issues, recovered some of their recent losses, and short-term rates also came down a bit — for the first time in three weeks.

Specifically, the Fed will phase out all special reserve requirements, including those introduced last November in the first credit package, and lists curbs on credit growth (though the Fed stressed it will keep an eye on lending for speculative purposes). Altogether, this should free up more credit and boost consumer spending in particular. But the main impact will be psychological: for the first time in eight months the market is free of emergency controls. All that now remains is for the Fed to bring down the discount rate from 11 per cent, something that could happen quite soon.

However, the FOMC will still have some tricky tactical decisions to make on Wednesday. The growth in the money supply has picked up a bit recently (though last week's figures were delayed because of the July 4 holiday, so the picture is not as up to date as it might be). And this might make the committee more cautious about endorsing lower short-term rates, even though the economic decline would warrant it. Because of this the markets expect little or no change in the Fed funds rate this week, though they would obviously be cheered by a cut.

In fact, Washington has a lot in store for the credit market this week. Apart from the FOMC, there is the money supply report today, the latest consumer credit figures either today or tomorrow (these should show a very sharp drop), June wholesale price index tomorrow (should also be down, but will rock the markets if it is not) and June retail sales (also down?)

The heavy borrowing calendar also continues. Dow Chemical will offer $400m of 30-year bonds in a huge issue that was postponed last week because of the weakness of the market. Caterpillar Tractor plans to sell $300m of 30-year bonds, and Marathon Oil $150m of notes due in 1987. In a new Bell issue, New York Telephone is slated for $450m of debentures due in 2019.

U.S. INTEREST RATES (%)

	Week to July 3	Week to June 27
3-mnth Treas. bills	7.82	7.77
3-mnth Cert. of dep.	8.60	8.60
Fed funds weekly average	9.57	8.93
Treas. 30-yr bonds	10.20	9.87
AAA utility	11.25	11.00
AA Industrial	10.88	10.50

Source: Salomon Brothers estimates

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
oa of Australia 10 89	60	93	93½	+0¼	0	11.23
stralian Res. 9⅞ 84	30	96⅝	97⅛	0	−0⅛	10.80
neficial Fin. 9¾ 87	100	91½	91⅝	−0⅛	−1⅛	11.61
Oxygen E. 10⅞ 90	50	95⅞	96¼	+0⅛	−0⅛	11.44
CA Grad. Rate 12 86	100	98⅝	99⅛	−0⅛	−0⅛	11.44
CA 11⅞ 90	50	100½	100⅞	+1¼	+0⅛	11.80
CA 11½ 88	150	100⅛	100⅞	+0⅛	−0⅛	11.36
ter Hawley 9¾ 88	50	92¾	93	+0⅛	−0⅛	11.49
corp O/S Fin. 10 86	300	96⅝	96¾	+0⅛	+0⅛	10.82
ntinental Grp. 9⅞ 86	100	92¾	92⅞	−0⅛	−1⅛	11.39
nmark 11⅞ 90	100	99⅝	100⅛	+0⅛	−0⅛	11.74
ma Petroleum 13½ 92	50	103¾	104¼	+0⅛	−0⅛	12.81
11 95	75	96⅜	96⅝	+0⅛	−0⅛	11.51
11⅞ 92	80	99	99½	+0⅛	−0⅛	11.85
13⅞ 90	100	106⅛	106⅞	+0⅛	−0⅛	12.53
portfinans 11¼ 87	50	100⅛	100⅝	+0⅛	−0⅛	11.08
c. de France 10 88	125	96⅜	97⅛	+0⅛	+0½	10.60
ort Dv. Cpn. 9⅞ 84	150	96¾	97⅛	0	−0⅛	10.66
ort Dv. Cpn. 12⅞ 87	100	106⅞	107⅜	+1⅛	+1⅛	11.19
leral Dev. Bk. 12⅞ 85	75	103⅞	104⅛	+0⅛	−0⅛	11.12
land, Rep. of 9⅞ 86	100	93½	94	+0⅛	−0⅛	11.01
d O/S Fin. 12⅞ 85	250	100⅞	100⅜	+0½	−0⅛	12.49
orge Weston 13½ 87	30	102⅝	102⅞	+0⅛	0	12.92
C 9⅞ 86	100	93⅜	93⅞	+0⅛	−1	10.75
C O/S Fin. 11 84	100	99⅞	100⅛	+0⅛	−0⅛	10.96
C O/S Fin. 13⅞ 85	100	107⅞	108⅛	+0⅛	−0⅛	11.80
odyear O/S 12½ 87	75	99⅛	99⅝	+0⅛	+0⅛	12.63
dson's Bay 11½ 90	75	98⅛	98⅜	+0⅛	−0⅛	11.76
Canada 10½ 85	50	100	100½	+0⅛	−0⅛	10.43
Fin. Ned. 11 83	100	99⅞	100⅛	+0⅛	−0⅛	10.93
Graw 13½ 85	75	102¾	102¾	+0⅛	−0⅛	12.74
halin 10 94	125	89	89½	+0⅛	−1⅛	11.57
Des. Telecm. 9½ 86	100	94⅝	95⅛	+0⅛	−0⅛	10.70
rwest Ind. 13⅞ 87	80	101⅞	101⅞	+0⅛	0	13.25
nex 11½ 88	100	98⅝	98⅞	+0⅛	+0⅛	11.82
ebec Hydro 11⅞ 92	100	97½	98	+0⅛	−0⅛	11.86
ylease Ltd. 11⅞ 85	50	100⅝	100⅞	+0⅛	−0⅛	11.07
CF 12⅞ 85	50	104½	105	+0⅛	−0⅛	11.04
ntoil 9⅞ 88	100	93⅜	93⅞	+0⅛	−0⅛	10.75
ed. Ex. Cred. 12½ 85	40	103⅝	104⅛	+0⅛	−0⅛	11.39
eden 9⅞ 84	100	97⅛	97⅝	+0⅛	−0⅛	10.56
rmar-Lambert 9 84	100	94⅝	95⅛	+0⅛	−0⅛	10.64

Average price changes... On day +0⅛ on week −0⅛

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
zo 9 90	125	101½	102¼	0	−1	8.70
lan Dev. Bank 10 90	200	108⅝	109⅛	+0⅛	−0⅛	8.83
stralia 8⅞ 90	250	101⅛	102½	+0⅛	0	7.79
CE 7⅞ 87	100	99	100	0	0	7.84
CE 8⅞ 95	100	99⅛	100⅛	0	−0⅛	8.16
zil 8 87	150	93⅝	94⅛	0	+0⅛	8.19
CA 7 91	150	92⅛	92⅞	+0½	−1	8.06
uncil of Eur. 7⅞ 89	100	94⅛	94⅞	+0⅛	−0⅛	8.14
nmark 7⅞ 86	100	97⅝	98⅛	0	−0⅛	8.25
nmark 8⅞ 92	100	98⅝	99⅛	+0⅛	−0⅛	8.36
7⅞ 94	225	98	98⅜	0	−0⅛	8.06
7½ 88	200	96⅛	96⅞	0	−0⅛	8.06
land Rep. of 8 86	150	98⅞	99⅜	0	0	8.14
e, City of 7⅞ 89	150	95⅜	96⅛	+0⅛	−1⅛	7.78
der Gasunie 8 88	100	101⅞	102⅛	−0⅛	−0⅛	7.58
rway 7⅞ 85	250	99	99¼	−0⅛	−0⅛	7.65
R 7⅞ 89	100	95⅝	96⅛	+0⅛	+0⅛	8.00
lo, City of 8⅞ 90	80	102	102½	+0⅛	0	8.39
eden 9⅞ 87	200	106⅝	107⅛	0	−0⅛	8.34
rld Bank 7⅞ 91	400	96⅞	97⅛	−0⅛	−0⅛	8.14
rld Bank 7⅞ 90	250	97⅝	98⅛	+0⅛	−0⅛	8.17
rld Bank 10 86	150	107⅛	107⅞	+0⅛	−0⅛	8.31
rld Bank 10 90	200	110⅞	111⅛	+0⅛	−0⅛	8.27

Average price changes... On day +0⅛ on week −0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
gentine 5½ 89	80	94	94⅝	+0⅛	+0⅛	5.34
mar 5 89	60	†91½	92	+0⅛	0	5.22
rman, City of 4⅞ 91	40	†95	96	+0⅛	+0⅛	5.30
rmen, City of 6 90	60	103	103½	0	+0⅛	5.58
DE 5 89	75	87	87½	−0⅛	−0⅛	6.94
nV Overseas 4⅞ 91	100	91⅛	92⅛	+0⅛	−0⅛	5.20
hrm'n-Tetterode 7 90	40	105½	105⅞	+0⅛	−0⅛	6.26
sse Naz. Tele. 4⅞ 88	100	94⅞	95	0	−1	5.11
CE 5⅞ 90	100	102⅞	103⅛	+0⅛	0	5.32
penhagen 4½ 91	60	91	91½	0	0	5.57
uncil of Eur. 5 89	100	94⅛	94⅞	−0⅛	−0⅛	5.75
4⅞ 91	100	†91	91½	−0⅛	−1⅛	5.69
1 4⅞ 94	100	87½	88	0	+0⅛	5.66
t. de France 4⅞ 89	100	94½	95	−0⅛	0	5.11
B 4⅞ 89	100	92⅛	92¼	+0½	+0⅛	5.29
ti 4½ 91	35	†94½	95	0	+0⅛	4.88
-Amer. Dev. 4½ 89	100	91½	92	−1	−0⅛	5.68
-Amer. Dev. 7 90	90	106⅛	106⅝	+0⅛	−0⅛	6.11
land Tele. 5½ 90	50	100⅞	101⅛	+0⅛	+0⅛	5.36
laysia 5 89	80	89	89⅛	−0⅛	−0⅛	6.58
ppon Tel. & T. 4⅞ 89	100	94⅛	95	−0⅛	−0⅛	4.99
rdic Bank 5 89	45	96	96½	+0⅛	+0⅛	5.54
mes Komm. 4⅞ 91	100	93	93½	+0⅛	+0⅛	5.18
8 4⅞ 81	100	90⅛	90⅛	0	0	5.64
8 6 90	100	103⅝	104⅛	0	−0⅛	5.47
lo, City of 4⅞ 91	100	89⅛	90⅛	+0⅛	−0⅛	5.59
ikoku El. Pwr. 4⅞ 89	100	95⅛	96⅛	+0⅛	+0⅛	5.31
est-Alpine 4⅞ 89	90	†96	96½	+0⅛	0	5.29
rld Bank 4½ 89	100	96⅛	96⅜	+0⅛	+0⅛	5.11
rld Bank 4⅞ 89	150	†92	92½	0	−0⅛	5.46
rld Bank 4⅞ 91	100	93	93½	0	0	5.43

Average price changes. On day 0 on week −0⅛

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
stralia 5.6 83	30	92⅛	93⅛	−0⅛	−0⅛	8.27
stralia 6⅞ 88	20	87⅛	88⅛	−0⅛	−1⅛	8.64
3 7⅞ 89	12	96⅝	97⅛	+0⅛	+1⅛	8.18
land 5.6 83	10	91⅛	92⅛	0	−0⅛	8.61
land 6.8 88	10	88½	89½	0	−1⅛	8.85
land, Rep. of 8⅞ 87	15	97½	98⅛	0	−0⅛	8.79

Average price changes... On day 0 on week −0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Bell Canada 10¼ 86 C$	60	95¾	96¼	+0⅛	−0⅛	11.66
CIBC 13½ 85 C$	50	103⅞	104⅛	0	−0⅞	12.37
Cr. Foncier 10⅞ 84 C$	30	†92	93	0	0	12.76
Fst. Can. Inv. 10 84 C$	50	94	94½	0	−0⅛	11.82
GMAC 12 85 C$	50	†99	99½	0	0	12.20
Quebec 10⅞ 86 C$	50	92¾	94¼	0	−0⅛	11.81
R. Bk. Canada 10 85 C$	40	94	94½	0	−0⅛	11.38
R. Bk. Canada 10 84 C$	40	87⅞	88⅝	0	−0⅛	11.77
Tordom Cpn. 13½ 85 C$	30	103½	104	−0⅛	−0⅞	12.40
M. Bk. Dnmk. 9 91 EUA	25	94	95¼	+0⅛	−0⅛	9.79
SOFTE 8¾ 89 EUA	40	86⅞	88⅝	+0⅛	−0⅛	10.54
U. Bk. Nrwy. 9⅞ 90 EUA	18	98	99¼	+0⅛	+0⅛	9.71
Algemene Bk. 8¾ 84 Fl	75	96⅛	96⅞	+0⅛	−0⅛	9.24
Ned. Gasunie 8¾ 84 Fl	50	99⅞	100⅛	+0⅛	−0⅛	8.71
Ned. Middbk. 8¾ 84 Fl	75	96⅛	96¾	0	+0⅛	9.38
Norway 8½ 84 Fl	100	96⅜	97⅛	0	−0⅛	9.22
Norway 8¾ 84 Fl	100	97⅛	97⅞	−0⅛	−0⅛	9.00
Philips Lamps 8¾ 84 Fl	75	97	97½	+0⅛	−0⅛	9.17
Air France 11 84 FFr	120	95	96¼	0	0	12.37
CECA 14½ 88 FFr	150	105⅛	106⅛	+0⅛	+0⅛	12.71
Euratom 9½ 87 FFr	150	84⅞	86¼	0	+0⅛	13.05
Finland 11 84 FFr	80	94	95¼	0	0	12.66
Finland 11½ 89 FFr	70	92½	93¾	0	0	12.78
Gaz de France 11 84 FFr	150	94½	95¾	+0⅛	0	12.60
IBM France 11⅞ 84 FFr	120	97⅛	98½	+0¼	+0¼	12.47
Renault 9¾ 85 FFr	100	86⅛	87⅞	+0⅛	+0⅛	13.41
Saint-Gobain 9¾ 86 FFr	130	85⅝	86⅝	0	+0⅛	13.29
Solvay et Cie 9¾ 87 FFr	125	84⅛	85¼	0	+0⅛	13.27
Beneficial Fin. 14½ 90 £	20	100⅛	100⅝	+0⅛	0	14.13
Citicorp O/S 13½ 90 £	50	99⅜	99⅞	+0⅛	+0⅛	13.53
EIB 11½ 91 £	25	94	94¾	+2½	+3½	12.46
Fin. for Ind. 12½ 89 £	30	95⅝	96⅛	+0⅛	−1	13.34
Fin. for Ind. 14½ 88 £	20	102⅞	103⅜	+0⅛	+0⅛	13.74
Gen. Elec. Co. 12⅞ 89 £	50	96⅞	97⅜	+0⅛	−0⅛	13.04
Swed. Ex. Cr. 15⅞ 85 £	20	103½	104	+0⅛	0	14.07
Indonesia 8¾ 91 KD	7	†93	93½	0	0	9.77
Mitsubishi 7½ 84 KD	10	†92¼	93	0	0	9.77
Norges Kom. 7¾ 89 KD	12	†93⅜	94⅛	+0⅛	+0¼	8.51
Occidental 8¾ 91 KD	7	†90¼	90¾	0	0	9.70
Akzo 9¾ 87 LuxFr	500	94½	95½	+0¼	+0¼	10.18
Euratom 8 87 LuxFr	500	89⅜	90⅜	−0⅛	0	10.13
Euratom 9¾ 89 LuxFr	500	96⅛	95⅛	0	0	10.00
EIB 9¾ 88 LuxFr	600	97⅛	98⅛	0	+0⅛	10.09
Volvo 9¾ 87 LuxFr	500	96½	97½	0	−0⅛	10.33

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
Allied Irish Bk. 5½ 87	0⅞	97⅞	98¼	2/7	15⅞	15.43
Bank of Ireland 5⅞ 89	‡0¼	98	98½	21/8	11.81	12.02
Bank of Tokyo 5⅞ 89	‡0⅛	97¼	97¾	25/10	16.56	18.99
Barclays O/S Inv. 5 90	0¼	97⅞	98⅛	13/12	9⅞	8.81
Bergen Bk. A/S 8 89	‡0¼	97⅛	97⅝	29/8	10	10.27
Bilbao Int. NV 5⅞ 90	0⅛	96¾	97½	29/11	10.06	10.36
Bque. Indo Suez 5⅞ 89	0⅛	98⅛	98⅝	11/7	14.69	14.93
Citicorp O/S F. 83	§‡0	98⅛	98⅝	23/8	10.19	10.30
Citicorp O/S F. 84	‡0	97¾	98¼	30/7	9.69	9.89
C. Itoh 5½ 87	0⅛	99⅞	100⅛	18/9	19.44	19.46
Co-operative Bk. 8 86	0⅛	98¼	98⅝	15/11	11.44	11.81
Creditanstalt 5½ 91	§‡0¼	96⅞	97⅛	14/9	9.44	9.72
CNT 5⅞ 88	§0¼	100⅞	101⅛	19/10	18⅛	17.97
GZB 5½ 89	‡0¼	98	98½	1/8	15⅛	15.52
Jugobanka 8 89	0⅞	90¾	92½	23/11	11⅝	12.74
Ind. Bank Japan 5⅞ 87	0¼	100⅛	100⅝	15/10	18⅞	18.68
Lloyds Eurofin 8 90 £	0⅛	97⅛	97⅝	3/7	8	8.22
LTCB Japan 5⅞ 85	0⅛	98¼	98¾	13/12	9⅞	9.77
LTCB Japan 5½ 89	0¼	98	98½	7/12	10⅛	10.31
Mira. Han. O/S 5⅞ 94	‡0⅛	97⅛	97⅝	31/8	9⅞	10.14
Midland Intl. Fin. 5 89	0¼	99⅛	99⅝	20/12	9½	9.54
Midland Intl. Fin. 5⅞ 92	0¼	98⅛	98⅞	5/12	10⅞	11.03
Nacional Fin. 6⅞ 88	0⅛	98¼	98¾	25/7	14.69	14.91
Nat. West. 5⅞ 94	§0¼	99⅜	100⅛	11/10	18⅞	18.63
Nippon Credit 6½ 86	0⅛	97⅛	97⅝	12/7	14.44	14.83
Nippon Credit 5⅞ 87	‡0¼	97⅞	98⅛	6/8	14⅛	14.65
Royal Bk. Scot. 5⅞ 94	§‡0¼	98½	99	11/7	19½	19.75
Soc. C. de Bque. 6½ 87	0¼	100⅛	100⅝	3/10	20.06	18.99
Sogenal 5⅞ 89	§0¼	97¾	98¼	13/7	14.44	14.73
Standard Chart. 5⅞ 90	0⅛	100¼	101⅛	5/9	17⅛	17.08
Sweden 8⅞ 91	‡0¼	96⅞	97⅛	18/10	18⅞	19.23
Williams & Glyn 5⅞ 91	0⅛	99⅛	99⅞	14/9	18½	18.57
Bq. E. d'Alg. 4⅞ 89 SF	0⅛	91	92¼	18/12	6⅛	8.68

Average price changes... On day 0 on week −0⅛

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
AGA Aktbolag 7⅞ 89	10/79	145	†118	119	0	−7.78
Ajinomoto 7⅞ 95	2/80	616.5	†109⅛	110⅛	+0⅛	−0.56
Alco Int. Fin. 9½ 94	1/80	40	83	84⅛	−0⅛	29.14
Apache I. Fin. 8⅞ 95	12/80	21.12	†111½	113	0	−2.74
Asahi Optical 7 94	11/79	526.1	†100	101	−0⅛	0.09
Canon 6⅞ 94	8/79	570	109⅞	110⅞	0	1.11
Credit Suisse 4⅞ 93	10/79	1278	102	103½	0	−3.65
Daiei Inc. 6½ 94	11/79	927.3	97⅛	98¼	−0½	17.81
DDKK 11 90	4/80	324	†111½	112¼	−0⅞	9.35
Dynalectron 9½ 95	8/80	12.22	*114⅛	115	−0⅛	−1.06
Ensearch Fin. 9½ 94	7/80	30.25	*118	119	+0⅛	0.29
LPC Internatnl. 8 89	9/79	23.33	†110	111½	+0½	7.66
Meidensha Elec. 7 94	12/79	210	†101	102	+0⅞	7.75
Mitsubishi Cp. 6½ 94	10/79	549.1	†125½	127	+0⅛	5.79
Nippon Seiko 7⅞ 94	12/79	339	*†112⅛	113⅛	+1⅛	−0.92
Nitto Elec. Ind. 8 94	7/79	735	†88	89	−1⅛	9.25
Toshiba Cpn. 7⅞ 94	10/79	198	101⅞	102⅛	0	1.31
Union Bk. Switz. 5 89	2/80	121.4	97	98¼	+0⅛	4.02
Fujitso 5 84 DM	7/79	475	100⅞	101⅛	0	6.33
Kansai Elec. 4 84 DM	4/79	1234	87⅛	88⅞	+0⅛	38.95
Uny Co. 6½ 85 DM	11/79	1071	96⅞	97⅛	0	26.95

BONDTRADE INDEX AND YIELD

	Medium term		Long term	
July 4 ...	92.81	9.83	82.86	10.83
June 27 ...	93.34	9.71	83.86	10.63
High '80 ...	93.58	(16/6)	89.19	(2/1)
Low '80 ...	86.32	(2/4)	71.54	(29/2)

EUROBOND TURNOVER (nominal value in $m)

	Cedel	Euroclear
U.S. $ bonds		
Last week	2,553.9	3,181.3
Previous week	2,021.8	3,776.8
Other bonds		
Last week	567.9	605.5
Previous week	326.7	478.8

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn = The current coupon. C.yld = The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv. date = First date for conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Arab Company for Trading Securities SAK; Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bankers Trust International; Bondtrade; Credit Commercial de France (Secs.) London; Citicorp International Bank; Daiwa Europe NV; Deltec Trading Company; Dillon, Read Overseas Corporation; EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch; Morgan Stanley International; Nesbitt Thomson; Orion Bank; Salomon Brothers International; Samuel Montagu and Co.; Scandinavian Bank; Strauss Turnbull and Co.; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on July 4

WORLD STOCK MARKETS

NEW YORK

1980 High	1980 Low	Stock	July 3	1980 High	1980 Low	Stock	July 3
39⅝	27½	Cities Service	35⅞	62¾	45	Geosource	57½
29	14¾	City Investg..	26⅝	35½	17⅞	Gerber Prod. .	23⅛
39⅝	29⅝	Clark Equipment	33⅜	96¾	58½	Getty Oil..	82
37¼	26	Cleve Cliffs Iron.	28⅛	55	18¾	Giddings Lewis..	26½
10⅜	8	Clorox	10½	25⅜	18⅞	Gillette	26
9⅞	6⅞	Cluett Peaby..	8⅝	32¾	16¼	Global Marine.	32⅞
35¾	28⅞	Coca Cola..	32⅞	91⅜	15½	Goodrich (BF)..	20⅛
6¼	4	Coca Stl. NY	4⅞	14¼	10⅞	Goodyear Tire . .	13⅝
15½	11⅝	Colgate Palm	15¼	26¾	20	Gould..	24
8½	6¼	Collins Aikman...	7½	45¾	33¼	Grace..	39
53½	35½	Colt Inds	43⅛	39⅞	25½	Grainger (WW)	30⅜

1980 High	1980 Low	Stock	July 3	1980 High	1980 Low	Stock	July 3
70⅝	55⅛	Medtronic.	56½	72½	49⅞	St. Louis-San F.	68¾
25⅞	22	Mellon Natl..	25	42	31	St. Paul Cos	36⅜
35¾	23½	Melville..	35⅛	56⅞	25⅛	St Regis Paper	29⅛
19½	10½	Memorex..	13⅝	72½	42⅞	Santa Fe Inds.	59½
40½	30½	Mercantile Sts.	34⅞	45½	30	Santa Fe Intl..	41⅛
74	50⅛	Merck..	73½	8⅞	5½	Saul Invsst.	8½
41⅛	32	Meredith	37	8⅞	4½	Saxon Inds	5½
35¾	17½	Merrill Lynch..	25⅛	40	29½	Schering Plo	40

CANADA

HOLLAND

HONG KONG

JAPAN

ITALY

NORWAY

SWEDEN

SWITZERLAND

FRANCE

AUSTRALIA

AUSTRIA

BELGIUM/LUXEMBOURG

GERMANY

DENMARK

SINGAPORE

SOUTH AFRICA

Financial Rand US$0.85½
(Discount of 24½%)

BRAZIL

TEL AVIV

Source: Bank Leumi le Israel BM.

Spanish prices, Page 14

Indices

NEW YORK —DOW JONES

	July 3	July 2	July 1	June 30	June 27	June 26	1980 High	1980 Low	Since Compil'n High	Since Compil'n Low
● Industr'ls	969.91	876.02	972.27	867.92	881.85	885.45	905.84 (15/2)	759.15 (21/4)	1051.70 (11/1/73)	41.22 (2/7/32)
H'me B'nds	74.32	74.26	74.97	14.97	73.35	75.84	76.51 (25/6)	65.67 (28/3)	—	—
Transport	286.71	280.46	276.26	273.50	275.96	276.12	306.70 (6/2)	233.69 (27/3)	305.60 (6/2/80)	12.23 (8/7/32)
Utilities	116.53	116.51	115.22	115.56	114.50	114.64	115.55 (8/7)	96.04 (27/3)	163.32 (20/4/69)	10.52 (28/4/42)
Trading Vol 000's	47,670	43,020	34,508	38,160	33,11	46,115	—	—	—	—

● Day's high 880.70 low 874.83

	June 27	June 20	June 13	Year ago (approx)
Ind. div. yield %	5.99	6.07	6.02	5.72

STANDARD AND POORS

	July 3	July 2	July 1	June 30	June 27	June 26	1980 High	1980 Low	Since Compil'n High	Since Compil'n Low
‡Indust'ls	132.54	136.15	123.23	126.54	130.46	136.68	134.47 (15/2)	111.09 (27/7)	134.64 (11/1/73)	3.52 (30/6/32)
§Composite	117.80	115.58	114.93	114.24	116.00	116.19	116.44 (15/2)	98.21 (15/2)	125.85 (11/1/73)	4.40 (1/6/32)

	July 3	June 25	June 19	Year ago (approx)
Ind. div. yield %	5.07	4.99	5.22	5.28
Ind. P/E Ratio	7.29	7.79	7.75	7.22
Long Gov. Bond Yield	10.13	9.77	9.55	8.74

N.Y.S.E. ALL COMMON

July 3	July 2	July 1	June 30	1980 High	1980 Low
67.07	66.16	65.73	65.34	67.77 (15/2)	55.30 (27/3)

Rises and Falls	July 3	July 2	July 1
Issues Traded	1,878	1,876	1,886
Rises	1,139	930	819
Falls	390	540	644
Unchanged	349	418	425
New Highs	—	62	30
New Lows	—	—	—

MONTREAL

	July 4	July 3	July 2	July 1	1980 High	1980 Low
Industrial	392.66	389.14	383.72	(c)	425.80 (29/2)	325.21 (27/3)
Combined	350.72	358.82	353.51	(c)	378.90 (29/2)	286.30 (27/3)
TORONTO Composite	2136.26	2120.20	2089.77	(c)	2152.6 (29/2)	1703.5 (27/3)

NEW YORK ACTIVE STOCKS

Thursday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Norton Sim	523,300	15¼	+ ⅛	IBM	465,700	61⅛	− ⅛
Gulf Oil	517,400	44⅛	+2⅛	Nat Semi.	447,300	26⅞	+1
Colgate	533,400	15⅞	+ ⅛	Westing. Electric	442,700	25⅛	+1⅛
Mobil	556,900	76⅛	+1⅞	Twent Century	423,550	38⅛	+1⅛
Mer Lynch	552,000	25⅛	+1⅞	Pan Am	420,000	5⅛	+ ⅛

	July 3	July 3	July 2	July 1	1980 High	1980 Low
AUSTRALIA						
Sydney All Ord (1/1/80)	914.65	538.99	315.81	311.24	347.47 (14/2)	790.00 (2/1)
Metals & Mins (1/1/80)	5965.10	5925.70	5898.82	5862.26	6690.95 (14/2)	4551.26 (28/5)
AUSTRIA						
Credit Aktien (2/1/62)	67.27	67.42	67.45	67.57	65.40 (7/1)	66.05 (25/6)
BELGIUM						
Belgian SE (31/12/63)	96.51	95.45	95.61	95.05	105.75 (11/2)	90.16 (31/3)
DENMARK						
Copenhagen SE (1/1/73)	92.14	91.94	91.26	90.89	96.74 (2/1)	74.78 (6/2)
FRANCE						
CAC General (29/12/61)	106.40	107.40	107.5	107.90	115.2 (14/2)	97.1 (6/1)
Ind Tendance (29/12/77)	105.30	106.40	105.0	107.60	106.70 (15/2)	93.60 (5/4)
GERMANY						
FAZ-Aktien (31/12/58)	234.48	234.28	235.51	236.71	236.98 (25/2)	212.76 (28/5)
Commerzbank (Dec.1953)	737.90	737.30	734.50	724.20	749.2 (25/2)	667.0 (27/3)
HOLLAND						
ANP-CBS General (1970)	84.50	83.60	83.1	82.9	87.0 (14/2)	74.0 (27/3)
ANP-CBS Indust. (1970)	63.10	62.20	61.5	61.5	63.2 (11/1)	58.2 (28/3)
HONG KONG						
Hang Seng Bank (31/7/64)	1057.13	1057.22	1057.71	(c)	1067.22 (4/7)	738.0 (19/3)
ITALY						
Banca Comm. Ital (1972)	102.52	103.75	106.71	106.69	107.74 (20/6)	85.11 (2/1)
JAPAN						
Dow Average (16/5/49)	6846.09	6863.34	6819.45	6824.36	5904.51 (25/6)	6475.93 (27/3)
Tokyo New SE (4/1/68)	470.47	470.76	469.46	469.95	475.65 (25/6)	449.01 (10/3)
NORWAY						
Oslo SE (1/1/72)	126.68	125.60	125.38	126.83	144.70 (14/2)	110.12 (29/6)
SINGAPORE						
Straits Times (1966)	546.15	564.05	560.55	514.26	551.20 (23/6)	425.75 (3/1)
SOUTH AFRICA						
Gold (1958)	722.6	722.1	722.1	703.0	722.1 (2/7)	640.6 (18/6)
Industrial (1958)	551.4	549.1	547.5	545.6	549.1 (4/7)	456.8 (29/1)
SPAIN						
Madrid SE (30/12/79)	102.92	103.25	101.97	101.52	105.29 (31/3)	93.76 (13/5)
SWEDEN						
Jacobson & P. (1/1/58)	570.20	578.18	569.27	(u)	596.93 (8/2)	534.72 (17/1)
SWITZERLAND						
Swiss Bank Co. (31/12/58)	305.10	304.60	303.2	305.7	317.9 (11/2)	284.5 (22/4)
WORLD						
Capital Intl. (1/1/70)	144.7	143.2	143.2	142.5	144.7 (4/7)	120.5 (27/3)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poors—10; and Toronto—1,000; the last named based on 1975. † Excluding bonds. ‡ 400 Industrials. § 400 industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

This advertisement includes particulars given in compliance with the Regulations of the Council of The Stock Exchange for the purpose of giving information with regard to Energy Capital Limited ("the Company"). It does not constitute an invitation to any person to subscribe for or purchase any securities in the Company. The Directors have taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects and there are no other material facts the omission of which would make misleading any statement herein whether of fact or of opinion. All the Directors accept responsibility accordingly.

Application has been made to the Council of The Stock Exchange for the Ordinary Shares of the Company now in issue and to be issued to be admitted to the Official List.

All references in this document to "$" are to United States dollars and, unless otherwise stated, a rate of exchange of £1 : $2.3 has been used throughout.

Directors
GERALD JOHN WARD (Chairman)
Buckingham Place, London SW1E 6HX
*PAUL NATHANIEL TEMPLE (Chief Executive)
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IES EDWARD MOSLEY MAYNE, M.A.
18, North Street, Melton Mowbray, Leicestershire LE13 1NL
*U.S. Citizen

Secretary and Registered Office
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Registrars and Transfer Office
LLOYDS BANK LIMITED
Registrar's Department,
e Causeway, Goring-by-Sea, Worthing, West Sussex BN12 6DA

ENERGY CAPITAL LIMITED

(formerly Hamilborne Limited)

(registered in England No. 214308)

SHARE CAPITAL

Authorised		Issued and now proposed to be issued fully paid
£1,000,000	in Ordinary Shares of 12½p each	£874,725

BORROWINGS

At the close of business on 25th June, 1980 the Company and its subsidiaries had outstanding borrowings aggregating £8,537 all of which was secured. Save as aforesaid and apart from the inter-company liabilities, neither the Company nor any of its subsidiaries had outstanding on that date any loan capital in issue or created but unissued, any borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, hire purchase commitments, or guarantees or other material contingent liabilities.

Bankers
MIDLAND BANK LIMITED
89 Buckingham Palace Road, London SW1W 0QL
ARBUTHNOT LATHAM & CO., LIMITED
37 Queen Street, London EC4R 1BY

Brokers
HALLIDAY, SIMPSON & CO.
P.O. Box 412, 98 King Street, Manchester M60 2HA
and The Stock Exchange

Solicitors
HERBERT SMITH & CO.
Watling House, 35/37 Cannon Street, London EC4M 5SD

Auditors to the Company
NEVILLE RUSSELL & CO.
Chartered Accountants
30 Artillery Lane, Bishopsgate, London E1 7LT.

Reporting Accountants
PRICE WATERHOUSE & CO.
Chartered Accountants
Southwark Towers, 32 London Bridge Street, London SE1 9SY

Placing by Halliday, Simpson & Co. of 1,050,000 Ordinary Shares of 12½p each of the Company at a price of 37¾p per Ordinary Share

RODUCTION

On 9th June, 1980 the Company entered into agreements as follows:—

(a) to purchase from Allan Capital Corporation ("ACC") that company's entire interest in the Bison Basin uranium project in Wyoming, USA for $2m, to be satisfied by the issue to ACC of 2,500,000 new Ordinary Shares of 12½p each of the Company, credited as fully paid (the issued capital of ACC is owned by Energy Capital Limited (which company will upon completion change its name to Overseas Capital Limited and which is hereafter referred to as Overseas Capital Limited) the shares of which are owned as to 61 per cent. by Paul N. Temple ("Mr. Temple") and as to 39 per cent. by F. Aley Allan ("Mr. Allan"));

(b) to purchase from Mr. Temple certain oil and gas production and exploration interests in the United States for $1.5m to be satisfied by the issue to Mr. Temple of 1,350,000 new Ordinary Shares of 12½p each of the Company, credited as fully paid, and the payment to him of $420,000 in cash;

(c) to issue to Overseas Capital Limited, ACC's parent company, 12,500 new Ordinary Shares of 12½p each of the Company for a cash subscription of $10,000; and

(d) to sell the entire issued share capital of Hammill Brick Bestry Limited ("Hammill Brick") to Islandmore Quarry Limited, a company controlled by Mr. G. Ferguson Lacey and Mr. R. C. McBride, for a consideration of £115,000 in cash, payable as to £75,000 upon completion and two payments of £20,000 each to be paid on the first and second anniversary of completion.

In addition, agreements were entered into for the placing by Halliday, Simpson & Co. of 1,050,000 of the new Ordinary Shares of the Company issued to Mr. ple at a placement price of 37p (plus brokers commission of ¾p), and the transfer by Mr. Temple to Birmingham and Midland Counties Trust, Limited ACT") of 300,000 Ordinary Shares of the Company (being the balance of the new Ordinary Shares issued to him in respect of the oil and gas interests after the ng) at a price of 37p per Ordinary Share. The new Ordinary Shares issued in respect of these transactions rank *pari passu* in all respects with the existing Ordinary es save that they are not entitled to receive the final dividend payable in respect of the year ended 31st December, 1979.

These agreements (other than that relating to the placing of 1,050,000 Ordinary Shares) were conditional, *inter alia*, upon the approval of shareholders and that oval was given at an Extraordinary General Meeting of the Company held on 3rd July, 1980. At that Meeting a special resolution was passed authorising the ge of name of the Company from Hamilborne Limited to Energy Capital Limited.

In view of the nature of the transactions, the Company requested that The Stock Exchange suspend the listing for its Ordinary Shares and this suspension took t as from 9.30 a.m. on 11th March, 1980. The agreements are now conditional, *inter alia*, upon the admission to the Official List by the Council of The Stock ange of the Ordinary Shares of the Company both issued and to be issued pursuant to certain of the agreements. Subject to listing, dealings are expected to mence on 14th July, 1980.

This document has been prepared on the basis that the agreements referred to above have been completed in all respects and the change of name of the pany to Energy Capital Limited effected.

TORY AND BUSINESS

History

The Company was incorporated on 12th June, 1926 as The Hammill Brick Company, Limited to own and operate a brickworks in Kent. Its name was changed amilborne Limited on 11th December, 1974. Hammill Brick, the wholly-owned subsidiary which owned the brickworks, has now been sold.

In April 1978, as a result of a general offer to shareholders, BMCT acquired a controlling shareholding in the Company and Mr. Ferguson Lacey and Mr. ride, who together control BMCT, joined the board of directors. During the last 18 months a number of possible acquisition opportunities for the Company have considered, culminating in the arrangements with Mr. Temple and Mr. Allan for the purchase of energy interests in the United States. The Directors of the pany are of the view that participation in the energy sector represents a sound investment and that the Company has acquired not only a portfolio of attractive gy-related assets but also the basis and expertise for expansion within this sector in the future. The combination of increased market prices for oil and gas and the ern over supply in certain parts of the world has resulted in many of the smaller fields becoming economically viable. This is particularly true in the United States it enables a company of this size to participate in the development of these fields. It is in this area that the Company will be closely involved.

The Company has established two subsidiary companies in the State of Delaware in the USA, Energy Capital Inc. ("ECI"), which holds the Company's est in the Bison Basin uranium project, and Energy Capital Resources Inc. ("ECRI") which owns the Company's oil and gas interests. In addition the Company oses to form a wholly-owned subsidiary in the Netherlands which will own the entire issued share capital of ECRI.

Business

The energy interests which have been acquired by the Company represent the greater part of the business which Mr. Temple has established over the last five s. A description of these interests is set out below.

Uranium Interest

ECI has acquired all right, title and interest owned by ACC in the Bison Basin uranium project. Bison Basin is a site of uranium bearing land in the State of ming extending to approximately 11,000 acres. The rights to extract the uranium from the site were acquired approximately three and a half years ago by a ortium headed by Ogle Petroleum Inc., ("Ogle") who are geological and petroleum consultants based in Santa Barbara, California. The exploration and testing e site were undertaken by Ogle who took the view soon after confirming the presence of ore reserves on the property that an *in-situ* solution mining process, using um bicarbonate, would be the best method of extraction.

By mid-1978 Ogle had established that the Bison Basin site contained reserves of at least one million pounds of uranium, and at that time a one-half interest in a ion of the site containing these proven reserves was sold to Western Fuel, Inc., a subsidiary of Duke Power Company. Duke Power is a substantial investor-owned electric utility company operating coal and nuclear power plants in the south eastern part of the United States. Western Fuel was also granted the right to earn a half interest in the balance of the Bison Basin acreage by carrying out, in several phases, a $1.2 million drilling programme. Western Fuel has earned a 33 per cent. rest in the remaining acreage and is expected to earn its full 50 per cent. interest by conducting additional drilling during the course of this year.

Arnex Corporation, an independent mining contractor based in Colorado, which has carried out the drilling programme on behalf of Western Fuel, has nated that the Bison Basin Initial Production Area and West Alkali Creek Exploration Area contains proven reserves of approximately 2.2m pounds and the able and inferred reserves bring total reserves to 3.2m pounds of calculated in-place uranium. In the feasibility studies which they have adopted in connection with Bison Basin project both Ogle and Western Fuel have used an estimate of 5m pounds of recoverable reserves based on an extraction rate of 85 per cent. and a very rate of 95 per cent. Arnex Corporation has expressed the opinion to the Company that forthcoming exploration drilling will delineate this figure of 5m pounds ecoverable reserves and that the total acreage has the potential for a substantially greater figure.

The Bison Basin uranium sandstone ore body is particularly suitable for solution mining because of favourable minerology, permeability and hydrologic ditions. While it is impossible to forecast precisely the rate of extraction, it has been the experience of the operators that in ore bodies in similar geological positions Vyoming over 90 per cent. of estimated reserves has been extracted. This level is possible because the leaching solution runs into ore grades of a quality insufficient to aken into account in the calculation of reserves, thus increasing the actual percentage extraction rate. A pilot production operation was commenced in May 1979 completed in July 1979. The results of the pilot operation were that of the 2,025 pounds which were extracted, 1,980 pounds of uranium were recovered and the nce of 45 pounds was collected in the waste evaporation pond, representing a recovery rate of 97.78 per cent. Ogle, which acts as operator for the project, believes the pilot operation demonstrated that the orebody can be successfully mined by the *in-situ* solution method.

Under the terms of the agreement between Ogle and Western Fuel, Western Fuel is obliged to spend up to $3.2m for the capital costs and expenses to establish necessary plant and commence commercial production. Ogle's present estimates are that the participants in the consortium will not be called upon for additional tributions to the cost of the commercial production facilities. Construction of the plant is proceeding and initial commercial production is planned to commence in y of this year. The plant when completed will be capable of processing the 5m pounds of uranium and in a full year production is expected to average 375,000 nds; this level should be achieved by the end of the first quarter of 1982. The market price during the first months of this year has varied between $32 and $43 per nd and, although no long term sales contracts have been entered into, no difficulty is anticipated in selling the total annual production at the market price from time ime.

ECI's interests in the Bison Basin project comprise both a working and royalty interest. The working interest is at present a 3.837 per cent. interest but this will reduced to 2.878 per cent. once ECI has received income from its working and royalty interests in the project equal to the funds invested by ACC in developing the ject (to date approximately $242,000) and acquiring the royalty interest ($105,000). ECI's royalty interest constitutes a 7.674 per cent. interest in a 15 per cent. rriding royalty on production revenues from the Bison Basin and this will also reduce—to a 5.756 per cent. interest—at the same time that the working interest is uced. Fuller descriptions of the interests are given in Appendix I.

There is also set out in Appendix I a copy of a report received from Arnex Corporation regarding the estimated reserves of the Bison Basin acreage and a copy of port received from Mountain States Mineral Enterprises Inc., valuing the interests which ECI has acquired in the project at $2.5m. Mountain States considered the ject applying a number of different assumptions and those upon which their valuation is based were recommended by them as being fair and reasonable. In mary the valuation is based on the total cash flow anticipated over the 16 year life of the project assuming total reserves of 5m pounds of uranium, escalation of s price and operating costs of 10 per cent. per annum and a discount factor of 10 per cent. per annum.

In addition to the above interests, Ogle has acquired the mineral rights in approximately 3,000 acres adjoining the above area for $25,000. As a result of its eement with ACC, ECI has agreed to take a 3.837 per cent. interest in such additional acreage at a cost of approximately $1,000.

Oil and Gas Interests

The oil and gas production assets which ECRI has acquired comprise interests in 25 producing properties situated in Ohio, Oklahoma and Texas. These are mmarised as follows:—

erator	*Location*	*Description*
nderman Oil and Gas Drilling	Washington County, Ohio	Interests in 4 leases in 3 fields, oil and gas production
pron Exploration	Pittsburgh County, Oklahoma	Interests in 7 leases in 6 fields, gas production
rcury Exploration Co.	Archer County, Texas Callahan County, Texas Nolan County, Texas Taylor County, Texas	Interests in 8 leases in 6 fields, oil and gas production
ardian Oil Co.	Dewitt County, Texas	Interest in 1 lease in 1 field, oil and gas production
ami Oil Production Inc.	Zapata County, Texas	Interest in 5 leases in 3 fields, oil and gas production

The total estimated reserves of the oil and gas producing leases attributed to the interests owned by ECRI amount to approximately 31,000 barrels of oil and 1m. cubic feet of gas. These interests represent oil and gas wells in varying stages of maturity as some wells are building up to, or have reached, full production whilst ers are approaching depletion. Further details of the properties are set out in Appendix II.

The table included in the report by Price Waterhouse & Co. set out in Appendix III summarises the receipts and payments in each of the five years ended 31st cember, 1979, in respect of the oil and gas interests. For the year ended 31st December, 1979 proceeds from sales of oil and gas amounted to approximately £97,600 d after payment of expenses directly related to these interests and after payments to maintain the non-producing interests referred in the next paragraph, net receipts ounted to approximately £72,450.

The exploration assets consist of interests in 53 non-producing properties, including exploration for carbon dioxide in New Mexico and for oil and gas in dahoma, Texas, Montana, Utah and Wyoming. The interests in these leases do not carry any commitment for exploration expenditure and the total annual rental yable to maintain the interests is approximately $20,000 per annum.

There is set out in Appendix II a copy of a report received from Cawley, Gillespie & Associates Inc., regarding the estimated reserves and their valuation of the and gas interests. Since completion of the arrangements with Mr. Temple, three of the non-producing interests, comprising 1,987 acres in Sweetwater County and 180 acres in Sublette County in Wyoming, have been disposed of, realising a total of $81,899 as compared with the valuation of $70,300 included in the report of wley, Gillespie & Associates Inc.

ANAGEMENT

Directors

Mr. G. J. Ward (42 years old) has been a director of the Company since March 1979 and was appointed Chairman following completion of the acquisition of the rgy interests.

Mr. Temple (57 years old) has, as chief executive of the Company, overall responsibility for the management and exploitation of the existing portfolio of erests and for the identification of new investment opportunities within the energy sector in the United States. Mr. Temple obtained a degree in law from Harvard niversity in 1948 and is a member of the Bars of California and the District of Columbia. Mr. Temple's career in the oil industry began with Standard Oil of New rsey (now Exxon Corporation) and subsequently as President of Esso Affiliates in Spain. From 1965 to 1969 he was Executive Vice-President of Gas Natural S.A. in rcelona and from 1970 to 1975 he was President (and co-founder) of Weeks Petroleum Limited. Since 1976 Mr. Temple has identified and developed the energy erests acquired by the Company.

Mr. Allan (58 years old) has particular responsibility for the development of the interest in the Bison Basin project. Mr. Allan obtained a degree in law from Yale iversity, is a member of the Bars of the State of New York and the District of Columbia, and has served as Law Secretary to judges of the US Circuit Court of peals and Supreme Court. He has held positions as General Counsel to the Office of the US Special Representative to N.A.T.O., to the Atomic Industrial Forum, d to Mobil Oil (Europe). Prior to joining Mr. Temple to establish ACC, he was senior Vice-President of New Court Securities Corporation, and was a founder and director of New Court Private Equity Fund. Mr. Allan is a director of UNC Resources Inc. a leading independent nuclear company in the US, Energy Sources Inc., an independent petroleum exploration and production company, as well as several other energy and investment companies.

Mr. G. Ferguson Lacey (31 years old) and Mr. R. C. McBride (76 years old) are non-executive directors. They together control BMCT which is a private investment company with interests in a wide range of activities including the energy and allied sectors.

Mr. J. E. M. Mayne (35 years old), who is also the Company Secretary, first became a Director of Hamilborne in 1974 and is responsible for the UK aspects of the business including administration and accounting functions for the group parent company.

2. **Staff and Offices**

ECRI has established an office in Rosslyn, Virginia and this acts as the headquarters for the group's US operations. Mr. Temple is supported at this office by a small accounting and secretarial staff.

The Company also maintains a small office in England which provides financial advice to the group and deals with the accounting and administration of the parent company.

3. **Mineral Consultant**

The Company has entered into arrangements with Harris Energy Corporation ("Harris") of Denver, Colorado for the provision of technical services.

The executive directors of Harris include Dr. R. W. Harris who is Professor Emeritus of Geology at the University of Oklahoma and Mr. D. E. Mettler who holds a degree of geology from the University of Kansas and who has been involved in oil and gas exploration in the US for a number of years. Under these arrangements the services of Dr. Harris, Mr. Mettler or other technical personnel either employed or retained by Harris will be made available to the Company for the provision of technical advice on specific projects as requested by the Company, at fees to be agreed on a project-by-project basis.

The Company and Mr. Temple each own approximately 10 per cent. of the issued share capital of Harris of which Mr. Temple is Chairman and Mr. G. Ferguson Lacey a director.

FUTURE PROSPECTS

The interests which have been acquired form a base from which the Company can develop within the energy sector. The Bison Basin project is about to enter commercial production and the oil and gas leases represent a reasonable spread of interests in a number of different locations and at different stages of development.

It is the intention of the Directors that the Company's participation in the Bison Basin project should not be a short term one. It is intended that ECI should obtain the benefit of the cash flow as the project comes into full production, and also benefit from any increase in reserves over and above the figure of 5m pounds on which its acquisition has been based.

The oil and gas production assets will continue to be exploited so that full utilisation is made of the estimated reserves. There is no present intention to dispose of the interest in any of the wells which are currently in production, although any offer received in the future would be considered on its merits.

The exploration acreage provides potential for growth in several developing oil and gas plays in various sedimentary basins. The Company intends, however, to limit its own drilling expenditure and, where appropriate, development will be achieved by farm-out arrangements under which a third party will earn a share in the acreage by undertaking the cost of drilling.

In addition to the interests which have been acquired, the Company expects to be in a position to participate in other energy opportunities. The extensive experience of Mr. Temple in the oil and gas industry and of Mr. Allan in the uranium sector provides shareholders with a board competent to identify opportunities similar to those which have been acquired. Such opportunities are expected to relate to new exploration areas requiring little initial capital investment. The Company's method of operation will be to take participations in existing syndicates for the exploitation of a particular resource or to be instrumental in the organisation of new syndicates in which it will participate.

FINANCIAL INFORMATION

The Company does not expect to generate substantial surplus income and cash flow will be employed in the development of the energy interests. Accordingly only minimum dividends will be paid in years when revenue surpluses justify such a payment. The objective of the Directors will be to achieve asset growth and this they anticipate will come about by an increase in value of the reserves acquired, by the proving up of additional reserves in the Bison Basin and on the exploration acreage, and by the ability to participate in other energy investment opportunities as they arise. As an example, since the negotiations with Mr. Temple commenced, a gas discovery has been made by Supron Exploration in the Kiowa Northwest (Atoka) Field with an estimated flow rate of 1.7m. cubic feet of gas per day.

BALANCE SHEETS

The audited net assets of the Company at 31st December, 1979 are summarised below together with a pro forma statement of net assets on completion of the acquisition of the uranium and oil and gas interests and disposal of Hammill Brick based on the net assets at 31st December, 1979.

	The Company at 31st December, 1979	*The Company at 31st December, 1979 adjusted for subsequent transactions*
	£'000	*£'000*
INVESTMENT IN ENERGY PROPERTIES	—	1,714
OTHER INVESTMENTS		
Listed	224	—
Unlisted	71	152
	295	1,866
LONG TERM RECEIVABLE	—	40
CURRENT ASSETS		
Investment in Subsidiary less provision	130	—
Debtors	5	5
Bank balances	265	71
	400	76
CURRENT LIABILITIES		
Creditors	23	17
Taxation	27	27
Proposed dividend	14	14
	64	58
NET CURRENT ASSETS	336	18
	631	1,924
Represented by:		
SHARE CAPITAL	392	875
SHARE PREMIUM ACCOUNT	164	991
RESERVES	75	58
	631	1,924
NET ASSETS PER ORDINARY SHARE	20.1p	27.5p

Accounting Policies

1. The principal accounting policies adopted in the preparation of the accounts at 31st December, 1979 are set out below:—

(a) *Accounting convention*
The accounts are prepared on the historical cost convention.

(b) *Accounting treatment of subsidiary*
The net assets of the subsidiary, Hammill Brick, have been included at the amount to be received from the disposal including the dividend receivable.

(c) *Investments*
Investments are stated at cost or at market value if that is lower and the diminution in value is considered to be permanent.

(d) *Deferred taxation*
Deferred taxation is provided on the liability method at the year-end rate of tax on all significant timing differences only in so far as the Directors consider that the taxation deferred will be payable in the foreseeable future.

2. The principal accounting policies used in preparing the pro forma balance sheet are those used by the group in preparing its accounts at 31st December, 1979 and the following additional policies have been adopted.

(a) Investments in energy producing properties will be amortised on an individual property basis using the unit of production method. The unit of production method involves the amortising of the cost of the investment by reference to the amount extracted in any year compared to the total estimated reserves of each property.

(b) Investments in non-producing properties will be initially capitalised. Subsequently these costs will be:—
(i) Amortised as producing properties when they become productive; or
(ii) Charged as an expense when it is determined the property will not be productive.

(c) Profits or losses on disposal of individual properties will be included in the profit before taxation of each year.

Transactions reflected in the Pro Forma Balance Sheet

In preparing the pro forma balance sheet, no account has been taken of any movement in net assets since the date of the last audited accounts of the Company except for adjustments to reflect the following:—

(a) Disposal of the entire issued share capital of Hammill Brick and receipt of £75,000 forming part of the sale consideration and receipt of a dividend of £25,000 after deducting repayment of the balance on current account of £10,000. The remaining balance of £40,000 has been shown as a long term receivable falling due in equal instalments on the first and second anniversary of completion.

(b) Acquisition of uranium interests for the issue of 2,500,000 new Ordinary Shares of 12½p each at an assumed value of 37p per share.

(c) Acquisition of oil and gas interests for a cash payment of $420,000 (£183,000 converted at the rate of $2.3 to £) and the issue of 1,350,000 new Ordinary Shares of 12½p each at an assumed value of 37p per share.

(d) Issue for cash of 12,500 oew Ordinary Shares of 12½p at an assumed value of 37p per share.

(e) The disposal of the entire portfolio of listed investments. The unlisted investments of £152,000 consist of a holding of 2,800,000 shares of Harris Energy Corporation (£64,000) and a holding of 800,000 shares of U.S. Syncrude Inc. (£88,000).

(f) Expenses of the transactions estimated at £226,000. Of this amount, £107,000 has been capitalised as part of the investment in energy properties and £119,000 has been charged against Share Premium Account.

Contingent liability

A future disposal by ECI of all or part of its interest in the Bison Basin uranium project is likely to give rise to a liability to United States taxation. Any liability to United States taxation would be calculated on the basis of the excess of the sale proceeds over the inherited tax base which is less than the proposed acquisition cost. The maximum extra liability which could arise by virtue of this tax base being lower than actual cost is estimated at approximately £220,000.

PRO FORMA CASH FLOW PROJECTION

Set out below is an indication of possible cash flows for the three years ending 31st December, 1982 after taking into account the transactions reflected in the pro forma balance sheet above. *These have been prepared for illustrative purposes and do not in any way represent forecasts of profits. The projection should be read in* conjunction with the principal assumptions on which it is based and which are set out below. Owing to the nature of the oil and gas and uranium industries, divergences from the assumptions listed below are likely to have a material effect on the projection. In particular the projection does not reflect the result of possible further acquisitions or disposals of existing interests.

ENERGY CAPITAL LIMITED Continued

Principal Assumptions

(1) For the purpose of completing the figures it has been assumed that the oil and gas and uranium interests were acquired on 1st January, 1980.

(2) It is assumed that the activity of the group will be to hold the investments in the oil and gas interests and to bring the Bison Basin uranium interest into operation. No attempt has been made to forecast the income and expenses of further investment in new or existing projects. With the exception of $15,000 drilling costs to be incurred in respect of one well, there are no commitments to invest in new or existing properties.

(3) Oil and gas income and expenses are the same as those projected in an appraisal prepared by Cawley, Gillespie & Associates Inc.

(4) Uranium income and expenses are based on those provided by the project operator, Ogle Petroleum Inc. The following levels of production of uranium from the project have been assumed:—

1980	33,400 pounds
1981	187,500 pounds
1982	375,000 pounds

(5) Following the enactment of the Crude Oil Windfall Profit Tax Act of 1980 in the United States it is estimated that the tax applicable to the current production levels would amount to approximately £5,000. The projection does not include the effect of this tax as all required information is not presently available.

(6) An exchange rate of U.S. dollars 2.3 to £1 has been used over the three years being the approximate rate on 4th June, 1980.

(7) There will be no future government legislation either in the United States or United Kingdom adversely affecting the group's operations.

(8) There will be no material change in the current rates or bases of direct or indirect taxation.

Cash flows for the years to 31st December

	1980 £000's	1981 £000's	1982 £000's
Operating Receipts			
Oil and gas wells	118	138	131
Uranium project	24	130	264
Interest and dividends	7	—	—
Sale of three non-producing oil and gas leases	35	—	—
	184	268	395
Operating Payments			
Operations of oil and gas wells	16	17	17
Operations of uranium project	19	66	105
Administration expenses	58	69	75
Rental payments on oil and gas leases	7	7	7
	100	159	204
Net Operating Cash Inflow	84	109	191
Capital Receipts			
Deferred proceeds of sale of Hammill Brick	—	20	20
Capital Payments			
Further investment in oil and uranium properties	58	58	—
Taxation	26	—	—
Dividend	14	—	—
	98	58	—
Net Capital Inflow (Outflow)	(98)	(38)	20
Total Net Cash Inflow (Outflow)	(14)	71	211
Balance at bank per pro forma balance sheet	71	57	128
Balance carried forward	57	128	339
Amortisation of the existing investments in energy properties which will be charged in the profit and loss account would be:—			
Oil and gas wells	110	94	79
Uranium project	7	41	82
	117	135	161

APPENDIX I

URANIUM INTEREST

Description of Interest

(a) Working Interest

The working interest of ACC in the Bison Basin project initially comprised a one-sixth participating interest granted to it by Ogle pursuant to a letter of agreement dated 1st February, 1977 and an agency agreement dated 28th March, 1977. These agreements provided, *inter alia*, that

(i) Ogle would operate the project and receive income derived from ACC's interest therein on behalf of ACC.

(ii) ACC would contribute one-sixth of the costs and expenses of the project.

(iii) ACC's interest would be reduced to one-eighth after it had recouped its aforesaid costs and expenses.

In June 1978 Ogle entered into a joint venture agreement with Western Fuel Inc. under which Western Fuel made certain payments and undertook certain exploration and development obligations in exchange for a one-half interest in that area of the Bison Basin which is now being developed and a right to acquire up to one-half interest in the remaining area covered by certain mining claims held by Ogle.

As a result of this transaction and other transactions entered into by ACC, ACC's working interest comprised 7.674 per cent. of Ogle's interest in the joint venture agreement reducing to 5.756 per cent. at the time that the income received by ACC from its working interest and royalty interest in the project equalled the monies expended by ACC in developing the project and acquiring the royalty interest. At present these amounts are approximately $242,000 and $105,000 respectively. Ogle's interest in the area is reduced to 50 per cent. as a result of its agreement with Western Fuel and therefore ACC's interest in the total area amounted to 3.837 per cent., reducing to 2.878 per cent. as above.

The interests of Ogle and Western Fuel (and hence of ACC) in the Bison Basin are subject to certain obligations assumed by Ogle when it acquired the mining rights to the area from Teton Exploration Drilling Company, Inc. ("Teton") pursuant to an agreement between Ogle and Teton dated 1st February, 1977. In particular, the agreement reserved a 40 per cent. royalty in favour of Teton and imposed certain minimum working requirements on Ogle, failure to comply with which might lead to forfeiture of the mining rights. The working interest is also subject to its pro rata share of an advance royalty of US $25,000 per annum payable to the two previous owners of the mining rights and a production royalty of 35 cents per pound of uranium extracted. Part of the advance royalty can be credited against the production royalty.

(b) Royalty Interest

The royalty interest is derived from part of the 40 per cent. Teton royalty referred to above. By three assignments made in June 1978, March 1979 and September 1979 respectively, Teton has transferred three-quarters of its royalty interests to Western Fuel and Ogle, with the result that Ogle now holds a 15 per cent. royalty interest.

ACC contributed part of the royalty purchase price paid by Ogle and Ogle holds on behalf of ECI a 7.674 per cent. interest in its 15 per cent. royalty interest. ECI's interest will reduce to 5.756 per cent. at the same time as the working interest is reduced. In the event of the mining rights being forfeited, the royalty ceases to be payable.

Estimate of Reserves

There is set out below the text of a letter dated 3rd June, 1980 received by the directors of the Company from Arnex Corporation, consulting geologists.

16 Inverness Place East,
Building B, Englewood, Colorado 80112,
U.S.A.

The Directors,
Hamilborne Limited

3rd June, 1980.

Gentlemen,

In compliance with your request we have estimated the proven and probable reserves in the area known as the OPI-Western Bison Basin Initial Production Area and West Alkali Creek Exploration Area in the State of Wyoming, USA. The Arnex Corporation has been retained since 1977 by Western Fuel Inc., who lead the consortium to explore the reserves in the project area and to carry out an exploratory drilling programme to assess the proven and probable reserves of the site. Our assessment of the reserves, proven and probable, is based on the results of this continuing drilling programme.

Professional Qualifications

Arnex is a firm of independent contractors with an office at 16 Inverness Place East, Building B, Englewood, Colorado 80112. The firm employs geologists engaged in the appraisal of uranium properties and other mineral prospects. The firm has had a number of years' experience in the assessment of uranium prospects.

Estimate of Reserves

In place uranium reserves for the project based on detailed drilling are shown in the table below. This table is designed to correct for the positive disequilibrium factor of 1.278 which has been substantiated in both the Bison Basin Initial Production Area ore body and subsequent reserves which we have delineated by exploration drilling during the past two years in the West Alkali Creek Exploration Area. These reserves total 3,219,338 pounds made up as to proven reserves of 2,187,530 pounds, probable reserves of 694,121 pounds and inferred reserves of 337,687 pounds.

Disequilibrium is a discrepancy in regard to inferred presence and grade of uranium from radiometric assay (eU^3O^8) and direct measurement by chemical sampling of the same ore interval (cU^3O^8). Sampling and analysis were carried out to provide definitive information regarding disequilibrium within a typical uranium roll front deposit in the project area and was based on continuous side-wall samples. Sampling was conducted in 15 rotary drill holes which were on a profile line and drilled on 50 foot centres. A comparison of analytical results of the core samples show that cU^3O^8 was consistently higher or lower than analytical eU^3O^8 results by the factors shown below:—

	Samples	Factor
Grade 0.02% or greater (Reserve Cutoff rate)	25	1.337
Grade 0.01% or greater to less than 0.02%	41	0.773
Grade less than 0.01%	62	0.589

These disequilibrium factors were averaged on the basis of both thickness and grade per cent. of the samples and this resulted in a disequilibrium factor of 1.278.

Since the sandstone paleochannel systems which constitute the host rock are similar throughout the Initial Production Area and West Alkali Creek Exploration Project Area it is reasonable to assume that the above disequilibrium factors are valid though they may not necessarily represent disequilibrium throughout the project area. However the results are considered indicative and correlate with other reliable available disequilibrium data in the Initial Production Area ore body.

The majority of the estimated reserves are located within depths of 200 to 400 feet and two miles of the production plant facilities. In the areas of deeper ore reserves (400 to 800 feet) geochemical fronts appear "stacked" which will allow development of potential reserves from multiple horizons within the same well bore.

In addition to the 3,219,338 pounds of uranium reserves indicated in the table, exploration drilling during Phases 1 and 2 of the past two years have delineated approximately 31 miles, or 163,680 feet, of geochemical roll fronts in the various horizons. To date, developmental drilling in our exploration program (Phases 1 and 2) has yielded approximately 200,000 pounds of in place eU^3O^8 per mile or 37,878 pounds per 1,000 feet, of geochemical front. Accordingly, we believe the potential of the West Alkali Creek Exploration Area to be as much as 10 million pounds of total in place uranium which includes the 3.2 million pounds shown in the table.

Based on drilling results to date, we are confident that additional drilling will delineate the 5 million pound recoverable reserve figure which has been used for production feasibility studies.

Yours faithfully,

for Arnex Corporation,

Arnold D. Cunningham

Bison Basin Initial Production Area Ore Body and West Alkali Creek Exploration Area

IN PLACE URANIUM RESERVES

November—1979

	Depth Range (Feet)		Reserve Cutoff	Proven DEF=1.000	Proven DEF=1.278	Probable DEF=1.000	Probable DEF=1.278	Inferred DEF=1.000	Inferred DEF=1.278	Total (Lbs.) DEF=1.000	Total (Lbs.) DEF=1.278
BISON BASIN INITIAL PRODUCTION AREA	200'-400'	Grade / GT	0.03% / 0.10	1,187,347	1,517,429	236,660	302,451	—	—	1,424,007	1,819,881
	200'-400'	Grade / GT	0.02% / 0.05	1,234,770	1,578,036	284,903	364,106	—	—	1,519,673	1,942,142
WEST ALKALI CREEK EXPLORATION AREA	200'-400'	Grade / GT	0.03% / 0.10	414,581	529,835	239,032	305,483	56,101	71,697	709,714	907,014
	200'-400'	Grade / GT	0.02% / 0.05	437,464	559,073	258,228	330,015	77,113	98,550	772,805	987,645
	400'-800'	Grade / GT	0.03% / 0.10	37,375	47,765	—	—	171,192	218,783	208,567	266,549
	400'-800'	Grade / GT	0.02% / 0.05	39,448	50,415	—	—	187,118	239,137	226,566	289,551
	TOTALS	Grade / GT	0.03% / 0.10	451,956	577,600	239,032	305,483	227,293	290,480	918,281	1,173,563
		Grade / GT	0.02% / 0.05	476,912	609,434	258,228	330,015	264,231	337,687	999,371	1,277,196
INITIAL PRODUCTION AREA AND WEST ALKALI CREEK EXPLORATION AREA	GRAND TOTALS	Grade / GT	0.03% / 0.10	1,639,303	2,095,029	475,692	607,934	227,293	290,480	2,342,288	2,993,444
		Grade / GT	0.02% / 0.05	1,711,682	2,187,530	543,131	694,121	264,231	337,687	2,519,044	3,219,338

Estimate of Value

There is set out below the text of a letter dated 3rd June, 1980 received by the directors of the Company from Mountain States Mineral Enterprises Inc.

Mountain States Mineral Enterprises Inc.,
P.O. Box 17960, Interstate 10 & Vail Road,
Tucson, Arizona,
U.S.A.

The Directors,
Hamilborne Limited,

3rd June, 1980.

Gentlemen,

In compliance with your request we have estimated the present value of the interests in the Bison Basin Uranium project attributable to Allan Capital Corporation.

Professional Qualifications

Mountain States Mineral Enterprises Inc. ("MSME") which is a Delaware corporation with its headquarters based in Tucson, Arizona, is engaged in the business of evaluating, designing and contracting mineral processing facilities.

MSME employs over 400 people and has had over 10 years experience as a company in the evaluation and design of mineral processing facilities. Several key personnel have over 20 years of uranium experience and up to 40 years of experience in mineral processing. In the 1979 listing of the top 500 USA design engineering and construction firms, MSME ranked 47th.

The Project

MSME was retained by the consortium exploiting the Bison Basin site in 1979 to study the feasibility of extracting and recovering uranium from the site. MSME prepared two studies for the consortium in August 1979 titled as below:—

1. Preliminary Engineering Study, Bison Basin Mine Project In Situ Uranium Facility.
2. Financial Analysis, Bison Basin Mine Project, In Situ Uranium Facility.

Our estimate of the present value (as at 1st January, 1980) of Allan Capital Corporation's (referred to as Energy Capital in the financial analysis) interest in this project is based on the above studies after adjusting [illegible] the operator's anticipated production programme and the effect of the consortium's purchase of a further royalty interest in the project. The project is based on a solution mining process the feasibility of which [illegible] tested by OPI-Western Joint Venture, at the site.

Our estimate of the value is approximately $2,500,000. This estimate is arrived at after considering the likely cash flows that will arise from the project and discounting these cash flows to their present day value. In projecting these cash flows the following assumptions have been made:—

(a) Production will commence during the summer of 1980.

(b) The initial extraction rate will be 100 gallons per minute (GPM) increasing to 1,200 GPM by April 1982. Thereafter extraction will be at the rate of 1,200 GPM throughout the remaining life of the project which will be in total some 14 years.

(c) Capital costs will be in line with estimates prepared from preliminary engineering study where each item of equipment was identified, sized and priced.

(d) Selling price of uranium will be initially $40 per pound escalating at the rate of 10 per cent. per annum.

(e) Revenue cost would increase at the rate of 10 per cent. per annum.

(f) Future cash flows have been discounted to present day values at 10 per cent. per annum.

(g) That the site will provide recoverable reserves of at least 5 million pounds U^3O^8 (uranium oxide) based on an extraction of 85 per cent. and a recovery of 95 per cent.

On the basis of the above assumptions we consider the estimate of $2,500,000 of Allan Capital Corporation's current interest to be reasonable and conservative.

Yours faithfully,

for Mountain States Mineral Enterprises Inc.,

Dr. Roshan B. Bhappu,

Vice President, MSME.

APPENDIX II

OIL AND GAS INTERESTS

There is set out below the text of a letter dated 3rd June, 1980, received by the directors of the Company from Cawley, Gillespie & Associates, Inc., Petroleum Consultants.

302 Fort Worth Club Building,
Fort Worth,
Texas 76102,
U.S.A.

The Directors,
Hamilborne Limited

3rd June, 1980.

Gentlemen,

In compliance with your request we have estimated as at 1st January, 1980 the oil and gas reserves and value attributable to the interests owned by Mr. Paul N. Temple in twenty-five oil and gas producing properties summarised in Table 1 below. In addition we have estimated the value of certain non-producing leasehold and mineral interests belonging to Mr. Temple summarised in Table 2 below.

Professional Qualifications

Cawley, Gillespie & Associates, Inc. is a Texas corporation with offices at 302 Fort Worth Club Building, Fort Worth, Texas 76102. The firm consists of petroleum engineers and geologists together with full support staff. Its principals have many years experience in the petroleum industry and are engaged in field studies, lease evaluations, reserve estimates and other consultancy services related to the petroleum sector.

Appraisal

The estimates represent our best judgment based on the information available to us at the time of preparation. It should be realised that reserve estimates are subject to continuing change as additional information becomes available. The reserves actually recovered, the revenues therefrom, and the actual cost related thereto could be more or less than the estimated amounts.

Net Reserves of Producing Properties	Oil (Barrels)	31,227
	Gas (Millions of Cubic feet)	591.6
		$000
Estimated value of oil and gas reserves in producing leases		1,365
Estimated value of non-producing acreage		200
Total value of interest attributable to Mr. Paul N. Temple		1,565

Assumptions made in appraising value of leases

(a) As most of the producing properties have been on production for a number of months, the reserve estimates presented were based on extrapolation of past performance and/or volumetric calculations.

(b) Oil from the evaluated properties is classified as "new", "stripper", or "upper tier". Current "new" and "stripper" oil prices were escalated eight per cent. per year to a maximum of $45 per barrel. Upper tier oil was escalated 4.7 per cent. per month for twenty-two months and thereafter was escalated eight per cent. per year to a maximum of $45 per barrel. The subject properties are operated by independent producers and it was assumed that production from the evaluated properties would be exempt from the proposed excise tax.

(c) Future gas revenue was based on current prices escalated in accordance with The Natural Gas Policy Act of 1978, assuming an annual inflation adjustment factor of eight per cent. per year to a maximum [illegible] per MCF.

(d) Future operating costs were based on current costs escalated eight per cent. per year for five years (period of oil price escalations).

(e) The values estimated for the non-producing properties were based upon our experience and consultations with third parties knowledgeable in acreage values in the particular areas.

(f) The reserve estimates were based on interpretations of factual data furnished by Mr. Temple and the various operators. To some extent data from public records have been used to check and/or supplement data furnished.

Yours faithfully,

for Cawley, Gillespie & Associates, Inc.

A. W. Angstrom.

Table 1. Producing Properties

Operator	Location	Description of Property	Revenue Interest Being Acquired Percentage	Estimated Reserves Oil Barrels	Estimated Reserves Gas MCF	Estimated Rate of Extraction in 1980 Oil Barrels	Estimated Rate of Extraction in 1980 Gas MCF
Lauderman Oil and Gas Drilling	Washington County, Ohio.	Fleming Field Edith Wilking 1	75.0	398	12,007	37	2,566
		Veto Field Jean Needham 1	12.5	1,763	3,260	399	449
		Warren Township Field Eddy 1	72.5	48	6,554	9	990
		Warren Township Field Craddock 2	10.2	748	1,694	82	167
Supron Exploration	Pittsburgh County, Oklahoma	Ashland (Cromwell) Field Casey NW/4 12-1	8.7	—	26,832	—	3,337
		Ashland (Cromwell) Field Casey NW/41-11	7.0	—	44,727	—	8,406
		Ashland S (Atoka) Field Casey NW/41-11	7.0	—	12,281	—	1,597
		Kiowa Northwest (Atoka) Field Hall SW/41	5.9	—	110,769	—	15,507
		Kiowa Northwest (Cromwell) Field Crescent 1	8.8	—	18,678	—	2,015
		Kiowa Northwest (Wapanucka) Field Ennenga NW/41	8.9	—	33,933	—	5,494
		Kiowa Northwest (Wapanucka) Field Hall SW/41	5.9	—	5,788	—	678
Mercury Exploration Co.	Archer County, Texas	Archer County Regular Field Pachacek 1-S	5.1	299	—	118	—
		Revelation (Miss) Field Pachacek 1	5.1	4,742	—	809	—
		Revelation (Miss) Field Pachacek 2	14.7	8,185	—	1,304	—
	Callahan County, Texas	Barr (Gardner) Field Barr, Leon	10.2	5,597	—	999	—
	Nolan County, Texas	Jackie Grimm (Gardner Sand) Field Antilley, Frank 1-A	10.2	5,238	11,787	1,092	1,377
		Jackie Grimm (Gardner Sand) Field Antilley, Frank 3	4.8	1,815	—	385	—
	Taylor County, Texas	Jackie Grimm (Gardner Sand) Field Antilley, Frank 1	4.8	252	16,752	32	1,839
		Spanish Oaks (Cook) Field Truitt, Davis 1	10.2	2,052	—	288	—
Guardian Oil Co.	Dewitt County, Texas	West Holley (Mackmark 7450) Field Kolodziejczyk 1	9.5	12	8,335	5	2,783
Miami Oil Production, Inc.	Zapata County, Texas	Alworth (Queen City) Field Welch 2292	3.2	311	66,424	54	3,313
		Alworth (Wilcox, Hinnant 1st) Field Costes 2273	2.5	139	70,187	35	12,424
		Lopez, Alonzo 2286	2.4	—	8,747	—	1,861
		Schroeder, Charles 2274	1.8	—	123,238	—	22,929
		Alworth (Wilcox, Hinnant 5th) Field Lopez, Alonzo 1288	2.1	—	7,728	—	—
				31,227	591,564		

Table 2. Non-Producing Properties

Location	Description	Approximate area covered by lease Acres	Approximate area attributable to interests being acquired Acres
New Mexico			
Colfax County	Carbon Dioxide Exploration Rights	2,927	732
Mora County		3,164	791
San Miguel County		26,906	6,726
Union County		6,181	1,545
Oklahoma			
Pittsburgh County	Federal Oil and Gas Leases	2,161	236
Texas			
Nolan County	Federal Oil and Gas Leases	440	28
Taylor County	Federal Oil and Gas Leases	288	18
Montana			
Valley County	Federal Oil and Gas Leases	2,491	2,491
Utah			
Emery County	Federal Oil and Gas Leases	1,342	1,342
Wyoming			
Converse County	Federal Oil and Gas Leases	80	80
Niobrara County	Federal Oil and Gas Leases	209	209
Sheridan County	Federal Oil and Gas Leases	480	480
Sublette County	Federal Oil and Gas Leases	1,480	1,480
Sweetwater County	Federal Oil and Gas Leases	2,308	2,308
Washakie County	Federal Oil and Gas Leases	640	640
Uinta County	Mineral Interests	959	53
		52,053 acres	19,159 acres

APPENDIX III

ACCOUNTANT'S REPORT

The following is a copy of a report to the directors of the Company from Price Waterhouse & Co., Chartered Accountants.

Price Waterhouse & Co.,
Southwark Towers,
32 London Bridge Street,
London SE1 9SY.

The Directors,
Hamilborne Limited,

9th June, 1980.

Gentlemen,

1. We have reviewed the information contained in the table and accompanying notes set out below in paragraph 4. The table summarises information obtained from the books and records of Mr. Paul N. Temple covering his receipts and payments during the five years ended 31st December, 1979 relating to those interests in oil and gas properties which it is proposed will be acquired by Hamilborne Limited. The interests are [illegible] Appendix II of the circular to shareholders of Hamilborne Limited to be dated 10th June, 1980.

2. We have also reviewed the information contained in paragraph 5 below which summarises the payments made by Allan Capital Corporation to acquire and maintain the interests in the Bison Basin uranium [illegible] which it is proposed will be acquired by Hamilborne Limited.

3. Our review of the information did not constitute an audit but we have verified the receipts and payments with such documentation and other evidence as we considered appropriate in the circumstances. We [illegible] review all of Mr. Temple's personal accounts and records or all the accounts and records of Allan Capital Corporation and accordingly we cannot state that there were no other transactions associated with the [illegible] report, however, that in our opinion the table and the summary of payments made in respect of the Bison Basin uranium interests have been properly compiled from the information which was the subject of our [illegible]

4. The following is a summary of receipts and payments from the oil and gas interests during each of the five years ended 31st December, 1979.

	1975 US $	1976 US $	1977 US $	1978 US $	1979 US $
Proceeds from sales of oil and gas	—	28,982	216,254	190,077	224,522
Operating expenses	29,885	12,901	31,577	25,165	28,163
Intangible drilling and development costs	28,000	175,580	228,270	68,835	6,600
Equipment costs	11,890	25,278	65,096	13,053	4,285
Payments to acquire and maintain non-producing interests	283	686	18,472	12,776	17,439
Total expenses	69,858	214,465	343,415	118,829	57,881
Net receipts (payments)	(69,858)	(185,483)	(127,161)	71,248	166,641
Number of producing wells at end of each year	—	3	12	18	21

Notes:

(a) The table does not necessarily present revenue in the year earned nor expenses in the year to which they apply but shows when cash was received and disbursed in respect of Mr. Temple's interests from the date [illegible] interest was acquired by him during the course of the five years.

(b) Account has been taken only of those of Mr. Temple's personal interests which it is proposed will be acquired by Hamilborne Limited.

(c) No amounts have been included for Mr. Temple's administration costs or for taxation which might have been paid in respect of these oil and gas interests.

5. The following is a summary of the payments made by Allan Capital Corporation in respect of the Bison Basin uranium project during the three years ended 31st December, 1979.

	In respect of Working Interest US$	In respect of Royalty Interest US$	Totals US$
1977	45,416	—	45,416
1978	14,534	30,333	44,867
1979	82,250	43,170	125,420
	142,200	73,503	215,703

Yours faithfully,

Price Waterhouse & Co.

هكذا من الأصل

RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

"RIGHTS" OFFERS

[illegible]

PENDING DIVIDENDS

For the convenience of readers the dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements, except where the forthcoming Board meetings (indicated thus*) have been officially published. It should be emphasised that the dividends to be declared will not necessarily be at the amounts or rates per cent shown in the column headed "Announcement last year."

	Date	Announcement last year
AAH	July 23	Final 8.975
Aaronson Bros.	Aug. 7	Int. 1.2
Acrow	Aug. 7	Final 1.5
Airfix	July 12	Final 2.291
*Alexanders Discount	July 21	Int. 4.5
ⁿAssoc. News	July 18	Int. due
Ault and Wiborg	Aug. 8	Int. 0.75
Automotive Products	Aug. 8	Int. 1.5
BAT Inds.	June 26	Final due
Bank Leumi (UK)	July 25	Int. 2.6
Barclays Bk.	July 28	Int. 8.25
Bibby (J.)	Aug. 9	Int. 6.0
*Birmid Qualcast	July 16	Int. 1.5
*Brown (John)	July 25	Final 10.239
Cawoods	July 28	Final 4.45
City Offices	July 31	Int. 1.3
Crown House	July 18	Final 2.5
Davy Cpn.	July 28	Final 4.7
ⁿDistillers	July 17	Final 5.75
Dixons Photo.	Aug. 7	Final 2.796
*Dowty	July 22	Final 5.0
Estate Prop. Investment	Aug. 8	Final 2.75
Ferguson Ind.	Aug. 3	Final 3.6
ⁿFitch Lovell	July 31	Final 3.368
ⁿGestetner	July 15	Int. 2.5
Glynwed	Aug. 8	Int. 2.45
GUS	July 19	Final 8.471
Grindlays	July 31	Int. 1.062
*Haslemere Estates	July 17	Final 3.37
Heron Motor	July 17	Final 0.82
Hogg Robinson	July 17	Final 2.24
Hoover	Aug. 2	Int. 5.61
Illingworth Morris	July 18	Final 1.12
*Imperial	July 10	Int. 2.75
*Inchcape	July 28	Final 10.0
Initial Services	July 20	Final 4.0
Lex Service	July 31	Int. 2.8
ⁿLloyds Bank	July 18	Int. 6.25
*Lond. & Midland Ind.	July 6	Final 4.1
Lonrho	July 29	Int. 2.64
*Magnet and Southerns	July 15	Final 6.0
*Mayer (M. L.)	July 14	Final 3.75
*Midland Bk.	July 25	Int. 7.6
*NatWest	July 25	Int. 7.25
Nottingham Mnf.	July 30	Int. 1.0
ⁿRank Org.	July 14	Int. due
*Ratners (Jewellers)	July 10	Final 1.925
Rentokil	Aug. 2	Int. 0.85
*Rothmans Intl.	July 8	Final 1.65
Rothschild Inv. Tst.	July 9	Final 7.0
Securicor	Aug. 8	Int. 0.9
Security Services	Aug. 8	Int. 1.375
Shell Trans.	Aug. 1	Int. due
Smith Bros.	Aug. 7	Final 0.1
Taylor Woodrow	July 31	Int. 3.15
*Thorn EMI	July 11	Final 9.4
Tricentrol	Aug. 2	Int. 2.8
UDT	Aug. 8	Final due
Unigate	July 17	Final 2.2
*Union Discount	July 16	Int. 6.375
*Utd. Gas	July 10	Final 3.395
Vansons	July 31	Int. 3.0
Ward and Goldstone	Aug. 2	Final 4.092

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

LOCAL AUTHORITY BOND TABLE

Authority (telephone number in parentheses)	Annual gross interest	Interest payable	Minimum sum	Life of bond
	%		£	Year
Knowsley (051 548 6555)	14	½-year	1,000	1

ENERGY CAPITAL LIMITED Continued

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

1. Share and Loan Capital

(a) There have been the following changes in the authorised and issued share capital of the Company and its subsidiaries in the two years prior to the date of issue of this document:

[illegible]

Parliamentary business

TODAY

COMMONS — Private Member's motion on problems of youth. Civil Aviation Bill, remaining stages.

LORDS — Employment Bill, report stage.

SELECT COMMITTEES — Treasury and Civil Service, on monetary policy. Witnesses: Bank of England officials. 4.30 pm, Room 15. Public Accounts, on Welsh Development Agency accounts. Witnesses: Welsh Office; Welsh Development Agency. 4.45 pm, Room 16.

TOMORROW

COMMONS — Local Government Planning and Land (No 2) Bill, remaining stages.

LORDS — Employment Bill, report stage.

SELECT COMMITTEES — Defence, on D-Notice system. Witnesses: BBC; IBA; Granada TV. 10.30 am, Room 8. Environment, on council house sales. Witness: Environment Department. 4.15 pm, Room 16. Ombudsman, on jurisdiction of Ombudsman on contractual and commercial matters. Witnesses: Mr. Nigel Lawson, Financial Secretary to the Treasury; Lord Trenchard, Minister of State for Industry. 5 pm, Room 7.

WEDNESDAY

COMMONS—Debate on Ulster White Paper.

LORDS—Debate on Middle East and South Africa.

SELECT COMMITTEES—Defence, on strategic nuclear weapons policy. Witness: International Institute for Strategic Studies. 10.30 am, Room 8. Education, on British Library Service. Witnesses: Mr. Norman St. John Stevas, Arts Minister; Sir Frederic Dainton of the British Library. 10.30 am, Room 6. Industry and Trade, on imports and exports. Witnesses: Society of Motor Manufacturers and Traders; 10.30 am, Room 16. Energy, on nuclear power programme. Witness: Westinghouse Corporation. 10.45 am, Room 15. Public Accounts, on the role of the Comptroller and Auditor General. Witnesses: Sir Anthony Rawlinson, Permanent Secretary to the Treasury; Mr. R. Wilding, Deputy Secretary, Civil Service Department. 4pm, Room 16. Energy, on nuclear power programme. Witness: GEC. 4.15 pm, Room 6. Transport, on Channel link. Witness: George Wimpey. 4.15 pm, Room 17. Employment, on Manpower Services Commission's corporate plan for 1980-84. Witness: Mr. James Prior, Employment Secretary. 4.30 pm, Room 15. Treasury and Civil Service sub-committee, on the Civil Service Department's role and powers. Witness: Lord Crowther-Hunt. 5.30 pm, Room 15.

THURSDAY

COMMONS—Opposition motion on decline in manufacturing industry.

LORDS—Health Services Bill, committee.

FRIDAY

COMMONS—Debate on information technology.

LORDS—Debate on Ulster White Paper.

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The Board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—
D. and Q. Retail, Connaught Rooms, Gt. Queen St., W.C., 12.00.
Brook St. Bureau of Mayfair, Europa Hotel, Grosvenor Sq., W., 12.00.
Hinton (Amos), Master Rd., Thornaby, Cleveland, 2.30.
Williams (W.), St. Mellons County Club, St. Mellons, Cardiff, 2.30.

BOARD MEETINGS—
Finals:
Ascd. Leisure
Colmore Invs.
Heywood Williams
May and Hassell
Toothill (R. W.)

DIVIDEND & INTEREST PAYMENTS—
Allied Leather Ord. Units 3.25p
Avon Rubber 4p
BBA 1.79p
Border Brews. (Wrexham) 3.3p
Bowater Corp. 7.25p
British Syphon 2.7p
Brooke Tool Engng. 1.45p
Carroll 1.75p
Cole (R. H.) 2.52p
Croda Intnl. 1.6p
Dickinson Robinson 5.8p
Dreamland Electrical 1.7p
House of Fraser Db. 4pc
Hunting Gibson 3p
J.B. 1.5p
Lee Cooper 2.25p
London Northern 2.35p
Lowland Drapery 1.5p
Lyle Shipping Ord. and A Ord. 4.2p
M. G. Fund Inv. Inc 1.8e
Minster Assets 2.3p
Northern American Tst. 1.2e
Northern Engng. 2.5p
Rugby Portland Cement 2.5p
Rush Tompkins 2.5e
Scott Robertson 1.532p
Scottish Ontario Inv. 2.15p
Silverthorne 0.5p
Smart (J.) (Contractors) 0.86p
Smith (W. H.) A Ord. 2.8p
Telephone Rentals 5.7p
Tootal 2.0415e
Ulster Television A Ord. 2.6p
Unochrome 0.28p
Walker (J. D.) 3p
Wellco 0.4g
Williams (W.) 0.625e
Young's Inv. Tst. 3.8p

TOMORROW

COMPANY MEETINGS—
Bulgin (A. F.), By Pass Rd., Barking, Essex, 3.00.
Estates and Agency, Hotel Bristol, Berkeley St., W., 12.00.
Helical Bar, Institute of Chartered Accountants, Moorgate Place, E.C., 2.30.
London and Overseas Freighters, Baltic Exchange, 14-20, St. Mary Axe, E.C., 11.00.
Young's Brewery, West Centre Hotel, Lillie Rd., Fulham, S.W., 12.00.

BOARD MEETINGS—
Finals:
Avenue Close
Baileys of Yorkshire
Birmingham Mint
Bristol Evening Post
Bromsgrove Casting and Machinery
Equity Consort Inv. Tst.
Hollas
London and Midland Inds.
McKay Secs.
Rothmans Intnl.
Utd. British Secs. Tst.
Waddington (John)
Watson (R. Kelvin)
Wrighton (F.)

Interims:
Anglo-American Secs. Cpn.
Investors Cap. Tst.
Lincroft Kilgour
Macpherson (Donald)

DIVIDEND & INTEREST PAYMENTS—
Allied Plant 0.578p
B and Q Retail 1.35p
Bailey (Ben) Construction 0.44e
Fairline Boats 1.7e
Hewden Stuart Plant 0.98p
Law Land 0.75p
Milford Docks 3.422p
Tarmac 8.75p
Wilson Bros. 1.1p
Young's Brewery Ord. N.V. Ord. 2.2p

WEDNESDAY, JULY 9

COMPANY MEETINGS—
Carless Capel and Leonard, Tallow Chandlers Hall, 4, Dowgate Hill, E.C., 11.30.
Churchbury Estates, 12-13, Henrietta St., W.C., 10.00.
Deritend Stamping, St. Richards House, Victoria Sq., Droitwich, Worcester, 12.30.
Foster Bros. Clothing, St. John's Hotel, 651, Warwick Rd., Solihull, West Midlands, 12.00.
Foster (John), Waldorf Hotel, Aldwych, E.C., 12.30.
Hield Brothers, Briggella Mills, Bradford, 12.00.
Holt Lloyd, Lloyds House, Alderley Rd., Wilmslow, Cheshire, 3.00.
London Sumatra Plantations, Baltic Exchange, 14-20, St. Mary Axe, E.C., 11.30.
Milletts Leisure Shops, Abercorn Rooms, Liverpool St., E.C., 12.00.
Panto (P.), The Cumberland Hotel, Grand Parade, Eastbourne, 11.00.
Parkland Textile, Parkway Hotel, Leeds, 12.30.
Rewton Hotels, London Park Hotel, Elephant and Castle, S.E., 12.00.
Spear (J. W.), Connaught Rooms, Gt. Queen St., W.C., 12.00.

BOARD MEETINGS—
Finals:
Bulmer (H. P.)
Downing (G. H.)
Moorgate Invs.
Routledge and Kegan Paul

Interims:
Amatil
Gen. Cnsd. Inv. Tst.
M and G Dual Tst.
NCR

DIVIDEND & INTEREST PAYMENTS—
Bishop's Stores Ord. and A 2e
Browning-Ferris 17½cts
Carr (John) (Doncaster) 0.8p
Deritend Stamping 9.4p
Foster (John) 0.5p
Keystone Inv. 3.28p
London Overseas Freighters 1.072p
Progressive Secs. Inv. Tst. 2.5p
Reabrook Inv. Tst. (Temp. susp. 23/4.791) 0.5625e
Rowntree Macintosh 4.75p
Samuel (H.) Ord. and A 5.524p
Slingsby (H. C.) 1.8p
Small (John C.) Tidmas 2p
Yorkshire Lancashire Inv. Tst. 0.65p

THURSDAY, JULY 10

COMPANY MEETINGS—
Atkins Bros. (Hosiery), The Old Cottages, Lower Bond St., Hinckley, 12.00.
Capper Neill, Piccadilly Hotel, Manchester, 11.30.
Dorankande Rubber Estates, 1-4, Gt. Tower St., E.C., 12.00.
Fidelity Radio, Cunard Intnl. Hotel, 1, Shortlands, W., 11.00.
Morgan Crucible, Cafe Royal, 68, Regent's St., W., 10.30.
Nichols (J. N.) (Vimto), Ledsen Rd., Wythenshawe, Manchester, 11.00.
United Engng., Midland Hotel, Manchester, 12.00.

BOARD MEETINGS—
Finals:
Braithwaite Engs.
Declan Hldgs.
Harris (Philip)
Howden Grp.
Kinta Kellas Rubber Ests.
Mitchell Somars
Oil and Assd. Inv. Tst.
Ratners (Jewellers)
Utd. Gas Inds.

Interims:
Imperial
Sotheby Parke Bernet
Tribune Inv. Tst.
Watson and Philip

DIVIDEND & INTEREST PAYMENTS—
Advance Laundries Ord. Unit 2.3p
Alliance Dublin Consumers Gas Db. 2pc
Associated Paper 1.21e
BFG Finance B.V. Fltng. Rate Notes 1989 74.25cts
Bank of New South Wales 8cts
Barlows 4p
Bellway 3p
Berec 4.195p. 10pcPf. 3.5pc
British-Borneo Petroleum Syndicate Units 6.25p
British Home Stores 8.25p
Canal-Randolph Corp. 16cts
Citicorp Overseas Finance Corp. Gtd. Fltg. Rate Notes 1982 $US494.50
Dares Estates 8.66p
Dorankande Rubber Ests. 2e
Helical Bar 1.75p
Hield Bros. Ord. Units 0.25p 4.5pcPf. 2.25pc
Iceland 7½pc 81-83 3¾pc
Imperial Chemical Ln. 4pc
London County 6¼pc 86-90 3⅛pc
Milletts Leisure Shops 4e
Parkland Textile Ord. and A 2.1p
Pretoria Portland Cement 14cts
Sindall (William) 4.5p
Spear (J. W.) 3p
Thomson T-Line Caravans 1.75p
Treasury Ln. 8½pc 84-86 4¼pc
Treasury 11¾pc 1991 5⅞pc
United Engng. 2.3e
Vaux Brews. 2.212e
Vereeniging Refractories Pf. 2¼pc
Williams (John) of Cardiff 1.1e

FRIDAY, JULY 11

COMPANY MEETINGS—
Associated British Foods, Connaught Rooms, Gt. Queen St., E.C., 11.00.
Dhamel, 17, Melville St., Edinburgh, 11.00.
Property and Reversionary Inv. Corp., Albany House, Petty France, S.W., 12.00.
Warrington (Thomas), Grosvenor Hotel, Eastgate St., Chester, 11.00.

BOARD MEETINGS—
Finals:
British Bldg. and Eng. Appliances
Thorn EMI

DIVIDEND & INTEREST PAYMENTS—
Althund Inc. B.5p. C 2p. 0.425p
Capper Neill 2.1e
Fidelity Radio 4.003e
French Kier 1.88p
Guthrie Corp. 21e
Jenks Cattell 1.5p
Kalsey 2.5p
London Lennox Inv. Tst. 1.9e
Minty 6p
North Midland Construction 0.05p
Property Reversionary Inv. Corp. 1.88p
Rank Hovis McDougall 1.524p
Riley (E. J.) 1.28e
Royal Bank Scotland Fltg. Rate Cap. Notes due 86-94 9⅛pc
Stockholders Inv. Tst. 1.25p
Tengaat Corporation 8cts

SATURDAY, JULY 12

DIVIDEND & INTEREST PAYMENTS—
Hamilbourne (Temp. susp. 11/3/80) 0.435p
Imperial Cold Storage Supply 6.58302e
Tameside Variable Rate Red. 1983 £8.4698

SUNDAY, JULY 13

DIVIDEND & INTEREST PAYMENTS—
Agricultural Mortgage Corp. Variable Rate Bds. 7/1/83 £6.5750

CURRENCIES, MONEY and GOLD

Interest rates weaken

BY COLIN MILLHAM

Interest rates in Europe continued to decline last week, although some centres moved against the trend for purely domestic reasons. Sterling showed little adverse reaction to the cut in Bank of England Minimum Lending Rate on Thursday. Some market observers claimed to expect last week's move by the UK authorities, but it would be true to say that most were surprised.

It was the only week recently that sterling was not sold prior to the Thursday MLR announcement, indicating that as far as most foreign exchange operators were concerned the threat of a fall in MLR had receded. The immediate reaction to the news was to knock about 2 cents off the pound, but by the close it had recovered and showed hardly any change on the week.

Elsewhere in Europe rates tended to ease, helped to some extent by central bank action to add market liquidity. The Bank of France offered to buy paper from the market, although the rate was unchanged from June 26, at 12¼ per cent.

The German Bundesbank also offered liquidity to the Frankfurt money market by lending DM 4bn on the basis of banks depositing securities with the authorities for the 30-day period of the loan. This helped to ease call money rates towards the end of the week.

In the Dutch money market conditions were stable, and seem likely to remain so, but in Zurich rates are expected to rise, although this may be mitigated by central bank assistance.

Italian rates were much firmer, reflecting fears of a devaluation of the lira. The forward lira weakened very sharply, while Eurolira rates rose.

The Italian authorities were known to be in the process of introducing an economic package as a result of the country's problems over its balance of payments and inflation. This did not include a devaluation of the lira, and at the end of the week the Italian currency remained adrift from its EMS partners as the weakest member of the system.

GOLD

	July 4		July 6	
Gold Bullion (fine ounce)				
Close	$665-668	(£282-283½)	$668-685	(£282¼-283¾)
Opening	$668-671	(£284¼-285¾)	$668-671	(£283¼-284¾)
Morning fixing	$668.50	(£284.105)	$664.50	(£281.101)
Afternoon fixing	$666.50	(£283.010)	$663.50	(£283.844)
Gold Coins				
Krugerrand	$686-688	(£291-293)	$684½-686½	(£291¾-283¾)
Mapleleaf	$683-680	(£289-288)	$683½-684½	(£290-989)
New Sovereigns	$169-170	(£71½-72½)	$168½-169½	(£71¾-78¾)
King Sovs.	$190-199	(£80½-82½)	$188-190	(£80-88)
Victoria Sovs.	$190-199	(£80½-82½)	$188-190	(£80-89)
French 20s	$164-167		$162½-164½	
50 pesos Mexico	$822-820		$81-896	
100 Cor. Austria	$675-680		$64-654	
$20 Eagles	$754-768		$76-765	
$10 Eagles	—		—	
$5 Eagles	—		—	

OTHER CURRENCIES

July 4	£	$		£ Note Rates
Argentina Peso	4668-4378	1806-1863	Austria	28.15-29.45
Australia Dollar	2.0710-2.0350	0.8030-0.8630	Belgium	80.06-60.05
Brazil Cruzeiro	122.90-123.20	52.115-58.315	Denmark	12.78-12.81
Finland Markka	8.51-8.55	3.6210-3.6230	France	9.50-9.57
Greek Drachma	98.718-108.167	42.60-48.75	Germany	4.10½-4.14½
Hong Kong Dollar	11.67-11.59	4.9195-4.8285	Italy	1920-1875
Iran Rial	n.a.	n.a.	Japan	515-520
Kuwait Dinar (KD)	0.624-0.630	0.2666-0.8667	Netherlands	4.49-4.53
Luxembourg Frc.	66.05-66.20	28.02-28.04	Norway	11.30-11.40
Malaysia Dollar	5.0385-0.0495	2.1586-2.1415	Portugal	110-114
New Zealand Dlr.	2.3810-2.6860	1.0115-1.0185	Spain	159¾-186½
Saudi Arab. Riyal	7.79-7.88	3.3273-3.3305	Sweden	9.69-9.77
Singapore Dollar	4.8735-4.9825	2.1140-2.1160	Switzerland	3.78-3.81
Sth. African Rand	1.8115-1.8185	0.7680-0.7685	United States	2.352-2.301
U.A.E. Dirham	8.87-8.73	3.7000-3.7030	Yugoslavia	16½-56

Rate given for Argentina is free rate

THE DOLLAR SPOT AND FORWARD

July 4	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	2.3469-2.3610	2.3575-2.3595	1.45-1.35c pm	7.12	3.87-3.77 pm	6.48
Ireland†	2.1365-2.1460	2.1430-2.1460	1.50-1.40c pm	8.11	4.10-4.00 pm	7.56
Canada	1.1423-1.1458	1.1423-1.1428	0.30-0.35c dis	−3.41	0.57-0.62dis	−2.08
Nethlnd.	1.9170-1.9200	1.9170-1.9185	0.08-0.18c dis	−0.81	0.50-0.60dis	−1.15
Belgium	28.02-28.05½	28.02-28.04	9½-11c dis	−4.60	28-31 dis	−4.21
Denmark	5.4265-5.4340	5.4265-5.4280	3½-4½ore dis	−8.84	11½-12½dis	−8.84
W. Ger.	1.7510-1.7550	1.7520-1.7530	0.05pf pm-0.05 dis	—	0.05pm-0.05dis	—
Portugal	48.73-48.85	48.73-48.83	30-40c dis	−8.61	70-110 dis	−7.38
Spain	70.13-70.28	70.13-70.18	85-95c dis	−12.81	200-235dis	−12.40
Italy	837.85-838.50	837.85-838.15	9-13lire dis	−15.03	26-31 dis	−13.60
Norway	4.8275-4.8310	4.8285-4.8300	0.05-0.55ore dis	−0.74	0.85-1.35dis	−0.91
France	4.0660-4.0700	4.0675-4.0700	0.82-0.92c dis	−2.57	2.90-3.10dis	−2.95
Sweden	4.1370-4.1430	4.1370-4.1390	1.50-1.65ore dis	−4.57	5.00-5.15dis	−4.90
Japan	218.80-219.6½	218.05-219.15	0.60-0.75y dis	−3.70	1.60-1.75dis	−3.06
Austria	12.43½-12.46¾	12.43½-12.44½	1.00-1.60gro dis	−1.25	3.25-5.00dis	−1.33
Switz.	1.6060-1.6125	1.6075-1.6085	0.61-0.54c pm	4.29	1.65-1.58pm	4.02

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency.

THE POUND SPOT AND FORWARD

July 2	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	2.3555-2.3650	2.3570-2.3580	1.65-1.55c pm	8.14	4.17-4.07 pm	6.99
Canada	2.7040-2.7200	2.7045-2.7065	1.02-0.92c pm	4.30	3.40-3.30 pm	4.95
Nethlnd.	4.52½-4.57	4.53¾-4.54¾	3-2c pm	6.94	7½-6½ pm	6.17
Belgium	66.25-66.60	66.33-66.43	25-15c pm	3.80	54-48 pm	3.07
Denmark	12.83-12.91	12.83¾-12.84¾	1¼ore pm-par	0.82	1-2¼ dis	−0.58
Ireland	1.1030-1.1080	1.1047-1.1057	0.02p pm-0.02 dis	—	0.17-0.12 pm	0.52
W. Ger.	4.13½-4.17	4.14-4.15	3¼-2¾pf pm	7.96	8-7 pm	7.24
Portugal	115.00-116.00	115.15-115.35	15c pm-15 dis	—	40 pm-60dis	−0.35
Spain	165.20-166.00	165.20-165.40	10-60c dis	−2.54	90-155 dis	−2.96
Italy	1,980-1,997	1,991-1,997	21-27 lire dis	−14.44	47-53 dis	−10.03
Norway	11.38-11.45	11.39½-11.40½	8½-7ore pm	8.22	19½-18 pm	6.62
France	9.60-9.66	9.61-9.62	4½-3½c pm	4.99	10½-9½ pm	4.15
Sweden	9.76-9.82	9.76½-9.77½	3-2¼ore pm	3.22	5¾-4¾ pm	2.16
Japan	514-519	514½-515½	2.00-1.70y pm	4.31	5.85-5.55 pm	4.43
Austria	29.40-29.60	29.40-29.45	19-17gro pm	7.34	48-43 pm	8.18
Switz.	3.80-3.85	3.81-3.82	4-3¾c pm	11.79	11-10 pm	11.01

Belgian rate is for convertible francs. Financial franc 66.80-66.90. Six-month forward dollar 0.20-6.15c pm, 12-month 8.90-8.80c pm.

FT LONDON INTERBANK FIXING (11.00 a.m. JULY 4)

3 month U.S. dollars		6 month U.S. dollars	
bid 9 1/4	offer 9 3/8	bid 9 3/8	offer 9 1/2

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris, and Morgan Guaranty Trust.

EURO-CURRENCY INTEREST RATES (Market Closing Rates)

July 4	Sterling	U.S. Dollar	Canadian Dollar	Dutch Guilder	Swiss Franc	West German Mark	French Franc	Italian Lira	Asian $	Japanese Yen
†Short term	—	8-9¼	11-16	10⅛-10⅝	5½-6	9⅝-9¾	12⅛-12⅝	15-25	9⅛-9⅜	12¾-13¼
7 days' notice	18½-19⅛	8-9¼	11-13	10⅛-10⅝	5-6½	9⅝-9¾	12⅛-18⅝	17-83	9⅛-8¼	12¾-16¼
Month	16⅝-18⅞	9½-8¾	12¼-13⅝	10⅛-10⅝	5⅝-5½	8⅝-9½	12⅛-18⅞	81-85	8⅞-8⅝	18⅞-13⅛
Three months	15⅞-16⅛	9⅛-9⅜	11¼-11⅝	10⅛-10⅝	6⅛-5½	9⅛-8⅝	12⅛-12⅜	21-23	8⅞-9⅜	18⅛-12¼
Six months	14¾-14⅞	9⅛-9⅜	10⅝-11	10⅛-10⅝	5⅛-5⅜	8⅞-8⅞	19⅛-12⅞	19-21	9¼-9⅜	10⅞-11⅛
One Year	13¾-13⅞	9⅛-9⅜	10½-10⅞	10½-10⅝	5⅛-5⅛	8¼-8⅝	12⅛-18⅞	18-20	9⅛-9⅜	8⅝-8⅞

Long-term Eurodollar two years 10½-10¾ per cent; three years 10⅝-10⅞ per cent; four years 10¾-11 per cent; five years 10⅞-11⅛ per cent; nominal closing rate. Short-term rates are call for sterling, U.S. dollars, Canadian dollars and Japanese yen; others two-days' notice. Asian rates are closing rates in Singapore.

The following nominal rates were quoted for London dollar certificates of deposit: one-month 9.00-9.10 per cent; three-months 9.00-9.10 per cent; six-months 8.88-8.98 per cent; one year 8.00-8.15 per cent.

LONDON MONEY RATES

July 4 1980	Sterling Certificate of deposit	Interbank	Local Authority deposits	Local Auth. negotiable bonds	Finance House Deposits	Company Deposits	Discount market deposits	Treasury Bills ♦	Eligible Bank Bills ♦	Fine Trade Bills ♦
Overnight	—	16¼-25	—	—	—	—	15-18	—	—	—
2 days notice	—	—	16⅝-16¾	—	—	—	—	—	—	—
7 days or	—	—	—	—	—	—	—	—	—	—
7 days notice	—	16¾-17	16½-16¾	—	17½	17½-17¾	16⅞-16	—	—	—
One month	16½-16⅝	16⅝-16¾	16½-16¾	17½-17¾	17½	17⅜-17½	15¾	14⅞	16⅝	16⅞
Two months	16⅛-15⅞	16¼-16⅝	—	17-17½	16¾	—	15½	14⅞	15⅞	16¼
Three months	15⅞-15⅞	15⅞-16⅛	16¾-16	15¾-16¼	16¼	17-17¼	15	14¾	15⅞	15¾
Six months	14¾-14⅝	14¾-16	14⅞-15	14½-14⅞	16¼	16½	—	—	13¾	14½
Nine months	16⅛-15⅞	14¼-14⅜	—	14⅜-14¾	14⅝	18½	—	—	—	—
One Year	13⅞-13⅞	13¾-15⅞	15⅞	13½-14⅛	14¼	15	—	—	—	—
Two years	—	—	13¾-14	—	—	—	—	—	—	—

Local authority and finance houses seven days' notice, others seven days' fixed. *Long-term local authority mortgage rate nominally three years 13¾-13⅞ per cent; four years 13¾-13⅞ per cent; five years 13¾-13⅞ per cent. ♦Bank bill rates in table are buying rates for prime paper. Buying rates for four-month bank bills 14¾ per cent; four-month trade bills 15¾ per cent.

Approximate selling rate for one-month Treasury bills 14½ per cent; two-months 14⁷⁄₃₂ per cent; three-months 14⅜ per cent. Approximate selling rates for one-month bank bills 16¼ per cent; two-months 15²³⁄₃₂ per cent; three-months 15⁵⁄₁₆ per cent; one-month trade bills 16¾ per cent; two-months 16 per cent and three-months 15½ per cent.

Finance Houses Base Rates (published by the Finance Houses Association) 17 per cent from July 1, 1980. Clearing Bank Deposit Rates for sums at seven days' notice 14 per cent. Clearing Bank Rates for lending 16 per cent. Treasury Bills: Average tender rates of discount 14.7404 per cent.

CURRENCY MOVEMENTS

July 4	Bank of England Index	Morgan Guaranty Changes%
Sterling	74.1	—
U.S. dollar	85.2	—
Canadian dollar	83.1	—
Austrian schilling	157.5	—
Belgian franc	118.1	—
Danish kroner	107.9	—
Deutsche mark	156.1	—
Swiss franc	200.2	—
Guilder	126.2	—
French franc	103.3	—
Lira	58.8	—
Yen	189.0	—

Based on trade weighted changes from Washington agreement December, 1971 (Bank of England Index=100).

WEST GERMAN CAR INDUSTRY

Volkswagen feels the pinch

BY KEVIN DONE IN FRANKFURT

VOLKSWAGEN, West Germany's largest motor car manufacturer, has started to feel the pinch of the recession in world car markets and has announced that it will be forced to introduce some short-time working at its Audi plants later this year.

Like its major competitors in the West German market, Ford and Opel, Audi has been hit by the particularly sharp fall in damand for large saloon cars with engines bigger than two litres.

Volkswagen said that it was preparing for up to four weeks of short-time working in September at the Audi works at Ingolstadt and Neckarsulm in southern Germany. Audi has a workforre of about 30,000 of which about half are employed in production work.

Herr Toni Schmücker, chairman of Volkswagen, told its annual meeting that the car market has become much more difficult in the last few weeks and VW appears surprised at the speed with which the recession in car sales has developed.

Opel and Ford have been operating some plants on short-time working for several months and Opel will make more than 4,000 of its workforce redundant later this year.

Audi has been hit chiefly by the slump in West German sales of its Audi 100 model from 42,616 in the first five months of 1979 to only 26,384 in the first five months of 1980. Hopes that sales of the Audi 80 could help fill the gap have not been fulfilled with new registrations of this model rising only slightly to 79,181 in the first five months of 1980 from 76,138 a year earlier.

Overall in the first six months of 1980 Volkswagen deliveries to dealers dropped by about 5.4 per cent to 1.28m vehicles, but the company is still hopeful of coming close to last year's sales volume of 2.3m vehicles.

Herr Schmücker said the group should reach last year's sales total of DM 30.7bn ($17.5bn). But profitability was being hit by rising costs so Volkswagen was unlikely to repeat last year's performance of DM 667m in after-tax profits.

The VW chief executive said that despite the recession in world car markets he expected car sales to grow at about 2-2.5 per rent a year in the 1980s.

He stressed that Volkswagen intended to devote its full attention to the motor industry rather than diversify into other fields. The group's financial resources would be stretched to the limit by the effort needed to develop new models and technologies, to rationalise assembly plants in order to improve productivity and to improve VW's market share.

The only exception to this would be the further expansion of Volkswagen's activities in office technology through its subsidiary Triumph/Adler.

Triumph/Adler last year had worldwide sales of DM 1.24bn, an increase of 11.1 per cent from the previous year. About 31.2 per cent of the group's turnover came from the West German market. Of the foreign sales of DM 848m, the major share was in the U.S., Triumph/Adler's largest single market. The group still has major structural problems in the U.S., however, particularly with its Royal Business Machines subsidiary which reported large losses again in 1979.

Overall, Volkswagen is investing about DM 4bn this year, of which DM 2.7bn will be in West Germany. Investment should rise again next year to DM 4.2bn of which DM 3.1bn will be devoted to VW's operations in the Federal Republic.

Bosch forecasts further profit fall

BY OUR FRANKFURT CORRESPONDENT

ROBERT BOSCH group, one of West Europe's leading manufacturers of electrical automotive components, expects sales to stagnate over the next six months and is forecasting a further fall in group profits this year.

Consolidated sales of the Bosch group rose by about 12 per cent to DM 10.8bn ($6.15bn) last year but after-tax profits declined again to DM 172m ($97.87m) from DM 224m in 1978 and a peak of DM240m in 1977. The parent company did better, boosting after-tax profits to DM 151m compared with DM 126m in 1978.

Sales rose in the first half of 1980 by about 10 per cent, but Bosch has already suffered some setbacks in important market sectors and profits have not kept pace with the rise in turnover.

Gains in productivity have not been sufficient to offset rising raw materials and labour costs. At the same time stiff competition in international markets has limited price increases and led to a further squeeze on profit margins.

With stocks at an uncomfortably high level and an expected fall in sales volume in the second of 1980, Bosch is preparing for a significant fall in the capacity use of main plants.

Bosch is dependent on the depressed motor industry for more than 62 per cent of its sales. Most of its important motor industry customers are also suffering from rising sales of Japanese cars in Europe and U.S. markets, which in turn is depressing Bosch's sales.

In the medium-term it is hoping to increase its sales volume by providing more high technology equipment for each car sold, but this can only be a long-term process.

In addition, its performance is being hampered by tha continuing losses accumulated by its Blaupunkt subsidiary. Its losses amounted to some DM 29m last year, a reduction from 1978 achieved by cuts in the workforce and other measures to restructure the business. But Blaupunkt's markets in car radios and home entertainment equipment such as television sets, stereos and radios are still under heavy attack from Japanese competitors.

Bosch is also facing continuing difficulties with its Spanish acquisition Femsa, in which it holds a 54.9 per cent interest. Femsa also operated at a loss last year, as a result of falling sales of electrical and electronic automotive equipment to the Spanish motor industry.

Bosch investment spending is rising to DM 750m-800m this year compared with DM 676m in 1979 with the major single emphasis going on tha development of fuel injection equipment.

Overall, the Bosch sales performance has been very patchy so far this year with the worst sector showing a fall of about 6 per cent and the best performer an increase of about 28 per cent.

For the whole of 1980 Bosch expects a sales increase of about 6 per cent to DM 11.5bn after a 10 per cent rise in the first half and a 2 per cent increase in prices.

Rescue deal for SIR cleared

By Rupert Cornwell in Rome

THE ITALIAN Government yesterday cleared the way for what should be the final rescue of the troubled chemical group, Societa Italiana Resine (SIR), once owned by Sig. Nino Rovelli and now, to all practical purposes, bankrupt.

As part of the major economic package, announced late on Wednesday L350bn ($416m) of government money will be provided to meet the immediate requirements of SIR, which last month announced plans to close its entire operation in Sardinia, for lack of cash to pay wages and buy raw materials.

This, in turn, will clear the way for ENI, the state energy agency, to take over the industrial management of SIR for a preliminary period of one year. However, there is now little doubt that ENI will take lasting control of at least the viable parts of Sig. Rovelli's group, today being run by a reluctant consortium of creditor banks.

A further L170bn will then be allocated to CEPI, the Italian government agency which helps out companies in temporary financial difficulties, and which is now part of the SIR consortium.

This move is designed to buy time for a final settlement of SIR's debts, put at over L3,000bn. ENI has always emphatically insisted that it would only take over SIR on the understanding that it was absolved of any responsibility whatever for the outstanding liabilities of the latter. This condition now seems to have been met.

Singapore ADR

Morgan Guaranty Trust Company of New York has established the facility for the issue of American Depositary Receipts (ADRs) for the shares of the Development Bank of Singapore (DBS), reports Leongie Lee from Singapore.

Burmeister reconsiders finance

BY HILARY BARNES IN COPENHAGEN

THE TROUBLED Danish shipbuilding group, Burmeister and Wain, is expected to make a statement tomorrow about its attempts to arrange some form of financial backing after the group failed to obtain a Government export credit guarantee to cover construction of a series of bulk carriers at the group's Copenhagen shipyard.

So far, B and W has declined to comment about reports that Thyssen, the West German steel group, believed to be the biggest single creditor of the shipyards, was prepared to put up DKr 70m ($12.85m), if other creditors and shipowners with vessels on order agreed to provide an additional DKr 30m.

Shares in B and W plunged on Thursday by 25¾ points to close at DKr 24 on news of the Government refusal to grant an extraordinary export credit guarantee, but on Friday they recovered to DKr 34½.

The Government is not willing to provide the export credit guarantee unless the finances of the group are strengthened by a capital injection of the order of DKr 100m.

Had B and W succeeded in concluding a management agreement with the J. Lauritzen shipping group to run the B and W shipyard, the Government would have waived the financial conditions. However, negotiations with Lauritzen ended unsuccessfully on Wednesday.

Danish newspaper reports that B and W might have to suspend payments to creditors within days if it cannot obtain the credit guarantee were treated laconically by B and W.

"The Press has been announcing our imminent decease for several years," commented Mr. Niels Boserup, information manager.

State presses NCB restructure

BY WESTERLY CHRISTNER

THE SWEDISH Government has appointed a mediator to negotiate with forestry owners a plan for the restructuring of Norrlands Skogsägares Cellulosa (NCB), the north Swedish forest owners' company in which the state took a 73.6 per cent stake last year.

On Thursday, NCB's board announced that it was unable to reach a decision concerning the restructuring plan proposed by Mr. Folke Rydbo, the company's managing director.

Mr. Rydbo has called for an outright capital injection of SKr 650m ($156m) from the state, plus SKr 200m for a loan towards a possible deal with MoDo for a fine paper plant, and an additional SKr 35-150m determined by raw material costs to cover losses during the estimated 2-3 year restructuring period. In addition, the plan requires a SKr 620m write-off of assets.

A conflict has arisen within the board because the forestry owners have stated that they are unable to raise more share capital. Also the unions are unwilling to go along with the plan, which entails the closure of two pulp mills and other measures that would reduce the workforce by more than 1,000.

Mr. Bo Hedström, general-director of the Forestry Board, was appointed to lead the state's negotiations with the forestry owners, who hold the remaining 26.4 per cent portion of NCB shares.

"It cannot be ruled out that the forestry owners' share engagement in NCB could be reduced," Mr. Nils G. Aasling, Industry Minister, said on Friday. But he stressed that a solution would initially be sought on the basis of the company's present ownership.

Also, Professor Karl Jungenfelt of the Stockholm School of Economics was named to conduct a financial analysis of NCB which would outline the cost consequences of several alternative strategies against the background of the option to withhold further capital support for NCB, the minister said.

First quarter gains at Parker Pen

PARKER PEN increased net profits from $6.75m to $8.49m in the first quarter to May 31 on sales ahead from $144.3m to $165.2m, in line with its forecasts. Earnings per share of the pen and writing instrument group advanced from 40 cents to 50 cents, writes Our Financial Staff.

Parker earlier announced that it had bought an additional 5.5 per cent stake in Manpower, the world's largest temporary employment group. The temporary work operations, although providing some 60 per cent of revenues in recent years, have contributed something less than 40 per rent in net profits. Writing instruments, meanwhile, have provided 60 per cent of profits from only 34 per cent of sales.

White Industries in step to thwart Bond

BY OUR SYDNEY CORRESPONDENT

THE DIRECTORS of the New South Wales coal group, White Industries have threatened Endeavour Resources with legal action if it does not withdraw its formal takeover bid for White. Endeavour, a member of the group headed by Mr. Alan Bond, is locked in a battle for control of the coal group with a White camp which includes the board, the White family and Mitsubishi the Japanese group.

The White camp claims the support of 53 per cent of the capital but this includes about 10 per cent held by a White staff share scheme and a listed White associate Mareeba Mining, which Endeavour is challenging in the courts.

Endeavour holds 43.6 per cent of White. There is only about 3.9 per cent of the capital in uncommitted hands. The White family recently formed a new company, White Holdings which announced a partial invitation for 53 per cent of the capital. The offer was of three White Holdings shares for each White Industries share or an alternative of A$20 cash, funded by Mitsubishi. The White Industries directors said they would accept the family company bid for their shares and recommend acceptance.

Endeavour had previously announced a partial offer, plus an invitation at A$20 a share, seeking at least 55 per cent of White Industries' capital. On Wednesday it sent out its formal documents for shareholders to accept, and announced that its bid price had been varied upwards to A$21. White Holdings has not yet sent out its Part A statement and cannot send its formal documents until at least two weeks after that occurs.

The directors of White Industries have now told Endeavour that its offer is illegal because under the Companies Act an invitation cannot be varied upwards, only an offer. They said the Endeavour offer should be withdrawn, and if this was not done White Industries would approach the Supreme Court of NSW.

Endeavour replied that it was extraordinary that White Industries proposed to take action to prevent the shareholders having the opportunity to sell their shares at a higher price. They pointed out that the White Industries board had recommended acceptance of a lower price from White Holdings.

Endeavour said the provisions of the Companies Act could not have been intended to mean that the price for offers could be varied but not for concurrent invitations as this would be patently unfair. Endeavour said it seemed clear the stock exchange requirements meant that the same price should be available both for offers and invitations and endeavour regarded itself bound not to offer a differential price.

Endeavour also said that if there should be any change to its terms it should affect only the invitation and not the accompanying offer. Endeavour also pointed out that the NSW Corporate Affairs Commission had accepted the notice of variation. Endeavour said the CAC had been sent a copy of the White Industries Telex setting out its arguments, but proposed to take no action.

Meanwhile White Industries has been granted large additional steaming coal areas in Queensland and NSW. The new areas are revealed in a lengthy document sent to shareholders by White directors to bring them up to date with developments. The Queensland prospect is a joint-venture with Hyundai International of South Korea and covers an area of about 630 square kilometres in the Clermont region. It is adjacent to the huge Blair Athol steaming coal deposit. The NSW area has been granted to Ulan Coal Mines, which is 60 per cent owned by White Industries and 40 per cent by Mitsubishi.

Ulan is White's major asset and is currently working towards the development of a major coal mine to export about 4m tonnes of coal a year. The White directors said that Ulan had been granted an authority to prospect an area of 1,800 hectares adjacent to the northern and western areas of the Ulan holding.

Group net income near double at Toshiba

By Yoko Shibata in Tokyo

TOSHIBA Corporation, Japan's second largest integrated electric machinery maker, and its 34 consolidated subsidiaries nearly doubled group earnings for fiscal year ended March 31, helped by improvements in its three mainstays, home electric appliances, heavy electricals, and communications and electronics.

The consolidated net profits rose by 96 per cent to Y45.32bn ($206m) over a year ago. Consolidated profits per share were Y21.14, against Y11.05.

Group turnover was Y1,906bn ($8.7bn), up 12 per cent. Sales of home electric appliances were boosted by 14 per cent to account for 36 per cent of the total. The company's measures stressing industrial electronics such as integrated circuit (IC) business, office computers and medical electronics bore fruit. Sales of communications and electronic machinery rose 22 per cent, to account for 24 per cent of the turnover. Sales of heavy electric machinery increased by 2 per cent to account for 29 per cent of the total.

The company's exports totalled Y418.74bn, to show a gain of 35 per cent, and to take a 22 per cent of share in total turnover. Because of the yen's depreciation in the foreign exchange market, export profitability improved significantly. During the year, exchange gains arising from the yan's depreciation came to no less than Y14bn.

A reduction in the fixed cost burden, resulting from full capacity operation in semiconductors, office computers and medical electronics, contributed to the upsurge in earnings.

For the current fiscal year, ending March, 1981, the company expects to achieva consolidated sales of Y2,000bn, and a slight increase in consolidatad earnings.

In May, Toshiba announced an increase of 112 per cent to Y41.04bn in net profit at the parent company level, on a sales gain of 15 per cent to Y1,428bn.

Consolidated advance of 121% at JVC

By Our Financial Staff

VICTOR COMPANY of Japan (JVC), the Matsushita Electric Industrial subsidiaries which recently agreed with Thorn-EMI to co-operate in the development of a home video disc system, raised its consolidated net profit in the fiscal year to March by 121 per cent to Y10.87bn ($48.5m) from Y4.83bn in the previous year, on the basis of brisk demand in the domestic market and rising exports. Consolidated sales increased by 35.2 per cent to Y322.49bn ($1.5bn) from Y238.45bn. Profit a share rose to Y72.66 from Y33.06.

JVC said that the earnings performance came with a solid increase in demand in the domestic market in all product categories and rising exports resulting from the Yen's depreciation in the foreign exchange market in the year. Exports climbed 69.1 per cent to Y161.67bn, from Y95.62bn, to account for 50.1 per cent of total sales.

Sales of audio products gained 25.8 per cent to Y91.03bn, and represented 28.2 per cent of turnover. Video equipment sales rose by 71.9 per cent to Y122.65bn, accounting for 38 per cent of the total. Sales of gramophone records and music tapes totalled Y38.222bn, up 7.9 per cent, while sales of television sets and other products salas were up 19 per cent to Y70.59bn.

The company feels that business conditions will not be favourable in the current fiscal year, partly as a result of international recession, but looks for an increase in net profit of some 17 per cent to about Y12.5bn, on sales rising around 21 per cent to Y390bn.

JVC reported in May that net profits at parent company level rose by almost 106 per cent to Y7.9bn, while sales on this basis were up 35.8 per cent to Y254bn.

* * *

THE FINANCE MINISTRY has raised quotas for broker positions of Japanese securities companies in Gen-Saki trading, to a total of Y5,800bn (equivalent to $26.4m), from Y4,300bn, according to securities sources here reports Reuter from Tokyo.

Exxon ready to lay out $13-16bn on Rundle Shale

BY JAMES FORTH IN SYDNEY

EXXON CORPORATION of the U.S., is prepared to spend US$13-16bn on a project to produce synthetic crude oil from the huge shale deposits at Rundle in Queensland, Australia.

The U.S. group will pay, at least US$500m even if the project ultimately fails to justify full scale development.

Esso Exploration and Production, wholly owned by Exxon, has signed heads of agreement with two Australian mining companies, Southern Pacific Petroleum (SPP) and Central Pacific Minerals (CPM), which hold the Rundle oil-shale deposit.

The agreement provides for a pilot plant to treat 25,000 tonnes of oil-shale a day to produce 15,000-18,000 barrels of oil a day. Esso will provida the first US$330m, but is prepared to put up all the finance for SPP and CPM, commonly known as the Rundle twins.

The aim is to develop a project to produce 180,000-240,000 barrels of oil a day. This is equal to Australia's current level of crude oil imports, which costs more than US$2bn a year. It would equal about 20 per cent of Australia's expected oil demand in the 1990's, when it is hoped to have the project in full production.

If Rundle goes ahead it would be easily Australia's largest resources project. It would dwarf tha proposad A$4bn-5bn North West Shelf liquefied natural gas project off the Western Australian coast.

By comparison, the capital pumped into the Bass Strait oilfields, which currently produce about 70 per cent of tha country's petroleum requirements, is still less than A$2bn. Esso Exploration and Production is actually a 50 per cent partner in the Bass Strait, and revenue from the operation would fund the Rundle project of which Esso has been appointed operator.

Esso expects the pilot plant to begin production in 1985 and to operate for two to three years to decide on the optimum production method.

"If, as expected tha results of phase one indicate that further development is technically and commercially feasible expansion of the project to its optimum economic size will take place," the directors of tha Rundle twins announced yesterday. If Esso finances the deal it would be entitled to the lion's share of production until repaid.

Tha agreement basically provides that Esso and the twins will each own the right to 50 per cent of production. If the twins can arrange finance they will be entitled to a maximum of 75 per cent of production.

The agreement also provides that Esso will make a cash payment to the Rundle companies of almost U.S.$50m and will also pay U.S.$25m a year until the pilot plant is in production. [illegible] production starts in 1985 [illegible] would give the Rundle partners, which have a combined capital of only A$14m, another U.S.$100m, which they intend to use to explore and develop other oil-shale deposits.

The twins have at least two more prospects in Queensland, Condor and Stuart, both of which are larger than Rundle.

The reserves at Rundle are estimated at 2bn barrels of oil which would maintain production at the maximum rate for about 25 years.

One of the major difficulties confronting the project is the massive amount of material which would need to be handled.

APICorp earnings move ahead

BY JAMES BUXTON

THE ARAB Petroleum Investments Corporation (APICorp), a company owned by 10 Arab states to invest in petroleum industry projects, has reported a 52 per cent increase in net profits for 1979, from SR 62.7m in 1978 to SR 95.3m ($28.6m) in 1979. Revenue was up by 31 per cent from SR 90m in 1978 to SR 118m ($35.4m) in 1979.

APICorp, which is based in Dammam, Saudi Arabia, was set up in 1975 and has a paid up capital of SR 1.2bn. Although its principal objective is to invest in joint ventures in the petroleum industry in the Arab world, its main activity so far has been leading or participating in Euromarket loans related to such projects.

In 1979 it managed and participated in $708m of loans and bond issues, relating to liquefied petroleum gas (LPG) pipeline in Algeria, oilfield development in Oman and gas projects in Algeria.

In the first of its joint venture projects to get under way APICorp helped form a joint-venture between its sister company Arab Petroleum Services Company and the U.S. drilling concern Sante Fe. The new company, the Arab Drilling and Workover Company, is owned 20 per cent by APICorp, 40 per cent by Santa Fe and 40 per cent by Arab Petroleum Services Company.

Joint-venture projects in the pipeline and under study include a scheme to establish an Arab detergents industry, for which the location has yet to be decided; a project to establish an Arab catalysts industry; a lubrication oil project; and a synthetic rubber and carbon black project.

APICorp's project-related investments amounted to SR 493.2m at the end of 1979. Investments in bonds unrelated to projects and in notes and debentures amounted to SR 131.7m; and current assets including time deposits, call and current account balances amounted to SR 635.6m.

Upsurge at Zim Israel Navigation

By L. Daniel in Tel Aviv

ZIM ISRAEL Navigation Company more than doubled its profit in 1979, to I£236m, from I£106.2m in 1978. The latest profit is equivalent to $9.3m, as converted at the average exchange rate for the year.

Income from shipping and related services came to I£16.5bn ($649m), compared with I£9.35bn in 1978.

The average exchange rate in 1979 was I£25.44 to the dollar, against I£17.50 in 1978. The rate currently stands around I£48.

The Zim fleet carried 7m tonnes of cargo in 1979, or 1.1m tonnes more than in 1978. The figures do not include bulk cargo shipments in chartered vessels, or oil. Trade to and from Israel accounted for 4.9m tonnes of the total, 17 per cent more than in 1978. The volume of cargo carried betwaen foreign ports rose by 22 per cent to just over 2m tonnes. Income from trade between foreign ports—although making up only 29 per eent of total freight business—accounted for 51 per cent of total income.

The company is steadily expanding and renewing its fleet, having invested $98m in seven new vessels received last year (two container ships, as well as multi-purpose and roll-on/roll-off vessels). This programme is continuing.

Coupon reduced on Japan bonds

TOKYO — The Japanese Finance Ministry plans to offer four-year Y150bn (equivalent to some $680m) of medum-term National bonds by conventional auction today, Ministry officials said.

The coupon rate will be 8.2 per cent, down from 8.5 per cent previously.

The Ministry last month issued Y105bn of 8.5 per cent four-year bonds at a coventional auction, the first issue of such bonds, which were priced at 101.23 per rent, to yield 8.087 per cent. This was the first time since the Ministry began issuing medium-term National bonds by public auction in June 1978 that the price topped par.

Reuter.

The articles on this page have been held over from last week.

UNIT TRUST SERVICE

OFFSHORE & OVERSEAS—contd.

King & Shaxson Mngrs.
1 Charing Cross, St. Helier, Jersey. (0534) 73741
Valley Ho., St. Peter Port, Gnsy. (0481) 24706
1 Thomas Street, Douglas, I.O.M. (0624) 4856
Gilt Fund (Jersey) [illegible]
Gilt Trust (I.O.M.) [illegible]
Gilt Fnd. Guernsey [illegible]
Intl. Govt. Secs. Tst. [illegible]
First Sterling [illegible]
First Intl. [illegible]

Kleinwort Benson Limited
20, Fenchurch St., EC3. 01-623 8000
Eurinvest [illegible]
Guernsey Inc. [illegible]
Do. Accum. [illegible]
K.B. Eurobond Fd. [illegible]
K.B. Far East Fd. [illegible]
K.B. Gilt Fund [illegible]
K.B. Int. Bd. Fd. Inc. [illegible]
K.B. Int. Bd. Fd. Acc. [illegible]
K.B. Intl. Fund [illegible]
K.B. Japan Fund [illegible]
K.B. Sterl. Asset Fd. [illegible]
K.B. U.S. Gwth. Fd. [illegible]
Signet Bermuda [illegible]

Lazard Brothers & Co. (Jersey) Ltd.
P.O. Box 108, St. Helier, Jersey, C.I. 0534 37361
L.B. External Fund [illegible]

Lloyds Bk. (C.I.) U/T Mgrs.
P.O. Box 195, St. Helier, Jersey. 0534 27561
Lloyds Tst. O'seas [illegible]
Next dealing July 3.
Lloyds Trust Gilt [illegible]
Next dealing July 9.

Lloyds Bank International, Geneva
P.O. Box 438, 1211 Geneve 11 (Switzerland)
Lloyds Int. Growth [illegible]
Lloyds Int. Income [illegible]

M & G Group
Three Quays, Tower Hill EC3R 6BQ. 01-626 4588
Atlantic July 1 [illegible]
Australian Ex. July 2 [illegible]
Gold Ex.Acc. [illegible]
Island [illegible]
(Accum Units) [illegible]

Management International Ltd.
Bk. of Bermuda Bldg., Bermuda. 809-295-4000
Bda. Intl. Bd. Fd. Cap. [illegible]
Bda. Intl. Bd. Fd. Inc. [illegible]
Prices June 27. Next dealing July 7.

Midland Bank Tst. Corp. (Jersey) Ltd.
28-34, Hill St., St. Helier, Jersey. 0534 36281
Midland Drayton Gilt [illegible]

Samuel Montagu Ldn. Agents
114, Old Broad St., EC2. 01-588 6464
Apollo Fd. June 24 [illegible]
Japfest. June 30 [illegible]
117 Group May 30 [illegible]
117 Jersey June 25 [illegible]
117 Jsey O/s June 18 [illegible]

Murray, Johnstone (Inv. Adviser)
163, Hope St., Glasgow, C2. 041-221 5521
Hope St. Fd. June 30 [illegible]
Murray Fund June 30 [illegible]
Pacific Fund May 31 [illegible]

Nat. Westminster Jersey Fd. Mgrs. Ltd.
45 La Motte St., St. Helier, Jersey 0534 36241
High Income Fund [illegible]
Equity Fund [illegible]
International Bond [illegible]
*Sub. day every Thurs.

Negit S.A.
10a Boulevard Royal, Luxembourg
NAV June 27 [illegible]

N.E.L. International Ltd.
P.O. Box 119, St. Peter Port, Guernsey, C.I.
Sterling Deposit [illegible]
Sterling Fixed Interest [illegible]
Sterling Managed [illegible]
Intl. Fixed Interest [illegible]
Intnl. Managed [illegible]

Pacific Basin Fund
10a Boulevard Royal, Luxembourg.
NAV June 6 [illegible]

Phoenix International
PO Box 77, St. Peter Port, Guern. 0481 26741
Inter-Dollar Fund [illegible]
Far East Fund [illegible]
Ind. Currency Fund [illegible]
Dollar Fxd. Int. Fund [illegible]
Ster. Exempt Gilt Fd. [illegible]

Providence Capitol Life Ass. (C.I.)
PO Box 121, St Peter Port, Guernsey 0481 26726/9
Sterling Bond Fd. [illegible]
Sterling Equity Fd. [illegible]
Intnl. Bond Fd. [illegible]
Intnl. Equity Fd. [illegible]
Prices at July 2. Next dealing July 9.

Quest Fund Mngmnt. (Jersey) Ltd.
PO Box 194, St. Helier, Jersey. 0534 27441
Quest Stlg. Fxd. Int. [illegible]
Quest Intl. Secs. [illegible]
Quest Intl. Bd. [illegible]
Prices on July 2. Next dealing July 9.

RBC Investment Managers Limited
PO Box 48, St. Peter Port, Guernsey. 0481-23021
Intl. Income Fd. [illegible]

Richmond Life Ass. Ltd.
48, Athol Street, Douglas, I.O.M. 0624 23914
(x)The Silver Trust [illegible]
Do. Diamond Bd. [illegible]
Irish Gilt Bond [illegible]
Sterling Deposit Bd. [illegible]
Atlas Gilt/Bd.Com.Fd. [illegible]

Rothschild Asset Management (C.I.)
P.O. Box 58, St. Julians Ct., Guernsey. 0481 26331
O.C. America Fd. [illegible]
[illegible]

Schlesinger International Mngt. Ltd.
41, La Motte St., St. Helier, Jersey. [illegible]
Am. Investments [illegible]
Far East Fund [illegible]
Gilt Fd. [illegible]
Intl. Fd. (Jersey) [illegible]
Am Options [illegible]
Am Smaller Cos $ [illegible]
Dollar Fxd. Int. [illegible]
Intl. Fd. (Lux.) [illegible]
*Next sub. day July 9.

Schroder Life Group
Enterprise House, Portsmouth. [illegible]
International Funds
£Equity [illegible]
$Equity [illegible]
£Fixed Interest [illegible]
$Fixed Interest [illegible]
£Managed [illegible]
$Managed [illegible]

J. Henry Schroder Wagg & Co. Ltd.
120, Cheapside, EC2. [illegible]
Am. Inv. Tst. June 18 [illegible]
Asian Fd. June 23 [illegible]
Ch'sid $ July 2 [illegible]
Darling Fd. July 3 [illegible]
Japan Fund June 26 [illegible]
Trafalgar Fd. June 30 [illegible]

Sentry Assurance International Ltd.
P.O. Box 1776, Hamilton 5, Bermuda.
Managed Fund [illegible]

Singer & Friedlander Ldn. Agents.
20, Cannon St., EC4. [illegible]
Dekafonds [illegible]
Tokyo Trust July 1 [illegible]

Standard Chartered Intl. Bd. Fd.
37 rue Notre-Dame, Luxembourg.
NAV June 29 [illegible]

Stronghold Management Limited
P.O. Box 315, St. Helier, Jersey. [illegible]
Commodity Trust [illegible]

Surinvest (Jersey) Ltd. (x)
Queens Hse., Don Rd., St. Helier, Jsy. [illegible]
American Ind. Tst. [illegible]
Copper Trust [illegible]
Jap. Index Ts. [illegible]

Surinvest Trust Managers Ltd.
48, Athol Street, Douglas, Isle of Man. [illegible]
The Coin Trust [illegible]

TSB Unit Trust Managers (C.I.) Ltd.
10, Wharf St., St. Helier, Jersey (C.I.). [illegible]
TSB Jersey Fund [illegible]
TSB Guernsey Fund [illegible]
Prices on July 2. Next sub. day July 9.

TSB Gilt Fund Managers (C.I.) Ltd.
10 Wharf St., St. Helier, Jersey (C.I.). [illegible]
TSB Gilt Fund [illegible]
TSB Gilt Fd. (Jsy.) [illegible]
Prices on July 2. Next sub. day July 9.

Tokyo Pacific Holdings N.V.
Intimis Management Co. N.V., Curacao.
NAV per share June 30 [illegible]

Tokyo Pacific Hldgs. (Seaboard) N.V.
Intimis Management Co. N.V., Curacao.
NAV per share June 30 [illegible]

Tyndall Group
P.O. Box 1256 Hamilton 5, Bermuda.
Overseas June 25 [illegible]
(Accum. Units) [illegible]
2 New St., St. Helier, Jersey.
TOFSL June 26 [illegible]
(Accum. Shares) [illegible]
American June 26 [illegible]
(Accum. shares) [illegible]
Far Eastern June 26 [illegible]
(Accum. shares) [illegible]
Jersey Fund July 2 [illegible]
(Non-J. Acc. Uts.) [illegible]
Gilt Fund July 2 [illegible]
(Accum. Shares) [illegible]
Victory House, Douglas, Isle of Man.
High Inc. Gilt July 2 [illegible]
(Accum. Shares) [illegible]

Unilife Assurance (Overseas) Ltd.
P.O. Box 1388, Hamilton 5-31, Bermuda.
Internl. Mngd. Fd. [illegible]

Union-Investment-Gesellschaft mbH
Postfach 16767, D 6000 Frankfurt 16.
Unifonds [illegible]
Unirak [illegible]
Unirenta [illegible]

Utd. Intnl. Mngmnt. (C.I.) Ltd.
14, Mulcaster Street, St. Helier, Jersey.
U.I.B. Fund [illegible]

van Cutsem & Associates Ltd.
42, Essex Street, London, WC2. [illegible]
PanAmer. 0% Fd. [illegible]

S. G. Warburg & Co. Ltd.
30, Gresham Street, EC2. [illegible]
Cnv. Bd. Fd. June 30 [illegible]
Eng. Int. July 3 [illegible]
Gr. St. $ Fd. June 30 [illegible]
Merc. Eurobd. June 30 [illegible]
Mrc. My. Mkt. June 30 [illegible]

Warburg Invest. Mngt. Jrsy. Ltd.
7 Library Place, St. Helier, Jsy. C.I. [illegible]
CMF Ltd. June 26 [illegible]
CMT Ltd. June 26 [illegible]
Metal Tst. July 3 [illegible]
SMT Ltd. July 3 [illegible]
TMT Ltd. June 12 [illegible]

Wardley Investment Services Ltd.
4th Floor, Hutchison House, Hong Kong. [illegible]
Wardley Trust [illegible]
Wardley Nikko Jp. Fd. [illegible]
Wardley Bond Trust [illegible]
Wardley Japan Trust [illegible]

World Wide Growth Management
10a, Boulevard Royal, Luxembourg.
Worldwide Gth Fd. [illegible]

Wren Commodity Trust
10, St. George's St., Douglas I.o.M. [illegible]
Wren Commod. Tst. [illegible]

NOTES
Prices are in pence unless otherwise indicated. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Net of tax on realised capital gains unless indicated by ‡. ♦ Guernsey gross. ⊕ Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies.

هكذا من الأصل

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Emson & Dudley Tst. Mngmnt. Ltd.
20 Albemarle St., W1. 01-493 3211

Emson Dudley Tst.	74.1	79.7	.....	6.00

Equity & Law Un. Tr. M. (a)(b)(c).
Amersham Rd., High Wycombe. 0494 33377

Equity & Law	81.6	85.8	+0.25	4.27

Fidelity International Management Ltd.
62-63, Queen St., London, EC4R 1AD. 01-248 4892

American	24.5	26.4	+0.5	1.36
Fixed Interest	25.0	26.9	+0.1	12.77
Growth + Income	30.9	33.3	+0.8	7.98
Special Sits.	32.4	34.9	+0.7	2.15

James Finlay Unit Trust Mngt. Ltd.
10-14, West Nile Street, Glasgow. 041-204 1321

J. Finlay Internat'l	30.1	32.4	.....	2.07
Accum. Units	37.0	39.8	.....	2.07
J. Finlay High Income	33.3	35.8	.....	10.07
J. Finlay Euro.Fin.	21.0	22.6	.....	4.07
Accum. Units	26.2	28.2	.....	4.07
J. Finlay Fd.In.Tst.	35.3	37.7	.....	5.51
Accum. Units	43.3	46.6	.....	5.51

Prices on July 2. Next dealing July 9.

Framlington Unit Mgt. Ltd. (a)
64, London Wall, EC2M 5NQ. 01-628 5181

American June 30	52.6	56.2	.....	1.17
Am. T'around June 30	50.8	54.2	.....	2.29
Capital Ts.	54.8	58.4	+0.8	5.46
(Accum. Units)	55.6	59.4	+0.8	5.46
Extra Income Trust	50.2	53.6	+1.2	10.55
Income Ts.	37.8	40.4	+0.6	8.50
Int. Growth Fd.	46.2	49.2	+1.0	2.30
(Accum. Units)	49.0	52.4	+1.2	2.30

Friends' Provdt. Unit Tr. Mgrs.
Pixham End, Dorking. 0306 5055

Friends Prov. Units	55.8	59.6	+1.4	4.68
Do. Accum.	78.6	84.0	+2.0	4.68

Funds in Court*
Public Trustee, Kingsway, WC2. 01-405 4300

Capital July 3	124.9	128.9	+1.3	5.17
Gross Inc. July 3	77.4	78.6	+0.9	11.61
High Yield July 3	89.1	92.3	-1.0	10.25

*Unauth. Restricted to monies under Court control.

G.T. Unit Managers Ltd.
16 Finsbury Circus, EC2M 7DD 01-628 8131

G.T. Cap. Income	127.4	135.5	+3.5	.....
Do. Acc.	160.2	170.6	+4.6	3.30
G.T. Inc. Fd. Un.	181.6	193.1	+5.5	8.50
G.T. U.S. & Gen.	141.2	149.4	+4.8	2.48
GT Wld. Bd. Fd.	94.8	98.7	+1.3	5.60

ManuLife Management Ltd.
St. George's Way, Stevenage. 0438 56101

Growth Units	72.8	76.6	.....	4.63

Mayflower Management Co. Ltd.
14-18, Gresham St., EC2V 7AU. 01-606 8099

Income June 23	108.4	114.1	.....	9.07
General June 23	73.2	77.0	.....	6.29
Intnl. June 23	47.8	50.3	.....	3.37

Mercury Fund Managers Ltd.
30, Gresham St., EC2P 2EB. 01-600 4555

Mrc. Gen. July 2	56.2	59.7	.....	5.81
Acc. Uts. July 2	78.3	83.2	.....	5.81
Mer. Int. July 2	76.9	81.8	.....	3.62
Acc. Uts. July 2	88.0	93.4	.....	3.62
Merc. Ext. June 26	70.0	72.9	.....	5.86
Accm. Units June 26	89.9	93.6	.....	5.86

Midland Bank Group
Unit Trust Managers Ltd. (a)
Courtwood House, Silver Street, Head, Sheffield, S1 3RD. Tel: 0742 79842

Commodity & Gen.	104.7	[illegible]	[illegible]	3.77
Acc. Uts. June 27	130.4	[illegible]	[illegible]	3.77
Overseas Growth	37.7	[illegible]	[illegible]	2.39
Do. Accum.	42.5	[illegible]	[illegible]	2.39
Capital	30.9	[illegible]	[illegible]	4.66
Do. Accum.	36.3	[illegible]	[illegible]	4.66
Income	58.4	63.1	[illegible]	7.10
Do. Accum.	73.8	78.8	[illegible]	7.10
North American	37.0	[illegible]	[illegible]	3.25
Do. Accum.	40.9	[illegible]	[illegible]	3.25
High Yield	59.5	[illegible]	[illegible]	9.62
Do. Accum.	71.6	77.5	+1.7	9.62
Equity Exempt*	127.4	[illegible]	.....	5.44
Do. Accum.*	129.4	[illegible]	.....	5.44
Japan & Pacific	38.9	42.1	+0.1	1.53
Do. Accum.	39.4	42.1	.....	1.57

*Prices at June 27. Next dealing July 4.

Minster Fund Managers Ltd.
Minster Hse., Arthur St., EC4R 9BH 01-623 1050

Minster June 30	40.2	42.2	.....	6.93
Exempt June 30	103.6	107.6	.....	6.25

MLA Unit Trust Mngmnt. Ltd.
Old Queen Street, SW1A 9JG. 01-222 8177

MLA Units	65.6	68.8	.....	4.83

Murray Johnstone U.T. Mgmt. (a)

INSURANCE PROPERTY BONDS

OFFSHORE & OVERSEAS FUNDS

Continued on previous page

FT SHARE INFORMATION SERVICE

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Over Fifteen Years

Undated

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INVESTMENT TRUSTS—Cont.

FINANCE, LAND—Continued

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OIL AND GAS

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

SHIPPING

SHOES AND LEATHER

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Investment Trusts

Finance, Land, etc.

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OVERSEAS TRADERS

RUBBERS AND SISALS

TEAS

India and Bangladesh

Sri Lanka

Africa

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Finance

Diamond and Platinum

Central African

MINES—Continued

Australian

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
—	Acmex 50c	23	—	—	—	—
—	ACM 20c	20	—	—	—	—
—	Bond Corp.	163	—	hQ2.8c	2.2	1.4
Nov. Apr.	Bougainville I Kina	138	7.3	hQ26.2c	1.0	10.4
—	BH South 50c	200	97¼	♦	—	—

Tins

Copper

Miscellaneous

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
—	Anglo-Dominion	250	—	—	—	—
—	Barymin	54	—	—	—	—
May	Burma Mines 10p	14½	14.4	0.62	1.1	6.2
Aug. Feb.	Cons. Murch. 10c.	340xd	30.6	MQ100c	1.8	16.8
—	††Hemerdon 10c.	120	—	—	—	—
—	Northgate C$1	415	977	—	—	—
Jan. July	R.T.Z.	465	12.5	15.0	3.2	4.6
—	Robert Mines	24	—	—	—	—
—	Sabina Inds. C$1	27	—	—	—	—
—	††SWCM 10p	50	—	—	—	—
—	Tara Explo. $1	443	—	—	—	—

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock.
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- †† Unlisted security.
- ¢ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividends or forecasts.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♦ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ♥ Excluding a final dividend declaration.
- ★ Regional price.
- ‖ No par value.

§§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Tax free. b Figures based on prospectus or other official estimate. c Cents. d Dividend rate paid or payable on part of capital; cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Tax free up to 30p in the £. w Yield allows for currency clause. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1979-80. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1980-81. K Figures based on prospectus or other official estimates for 1979-80. M Dividend and yield based on prospectus or other official estimates for 1980. N Dividend and yield based on prospectus or other official estimates for 1979. P Figures based on prospectus or other official estimates for 1978-79. Q Gross. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xR ex capital distribution.

REGIONAL MARKETS

The following is a selection of London quotations of shares previously listed only in regional markets. Prices of Irish issues, most of which are not officially listed in London, are as quoted on the Irish exchange.

			IRISH		
Albany Inv. 20p	30	......			
Bertam	16	......	Conv. 9% '80/82	£91½	+¼
Bdg'wtr. Est. 50p	415	......	Nat. 9¾% 84/89	£77⅝	+½
Clover Croft	60	......	Fin. 13% 97/02	£91¼	+⅞
Craig & Rose £1	£10½	......	Alliance Gas	48	......
Fife Forge	32½	......	Arnott	345	......
Finlay Pkg. 5p	18	......	Carroll (P.J.)	54	......
Graig Ship. £1	£17	+2	Clondalkin	116	−1
Higsons Brew	77	+2	Concrete Prods.	70	......
Holt (Jos) 25p	250	......	Heiton (Hldgs.)	32	......
I.O.M. Stm. £1	190	......	Ins. Corp.	265	......
Pearce (C. H.)	455	......	Irish Ropes	45	......
Peel Mills	40	......	Jacob	32	......

OPTIONS

3-month Call Rates

Distillers	17	P & O Dfd.	10	Burmah Oil	20
Dunlop	7½	Plessey	14	Charterhall	10
Eagle Star	15	Racal Elect.	22	KCA	11
F.N.F.C.	2¼	R.H.M.	[illegible]	Premier	15
Gen. Accident	21	Rank Org.	15	Shell	35
Gen. Electric	30	Reed Intnl.	16	Tricentrol	40
Glaxo	18	Sears	5	Ultramar	35
Grand Met.	22	Tesco	6		
G.U.S. 'A'	34	Thorn	23	Mines	
Guardian	23	Trust Houses	12	Charter Cons.	14
G.K.N.	20	Tube Invest.	23	Cons. Gold	40
Hawker Sidd	15	Unilever	40	Lonrho	8
House of Fraser	15	U.D.T.	5½	Rio T. Zinc	35

"Recent Issues" and "Rights" Page 19

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £500 per annum for each security

FINANCIAL TIMES
Monday July 7 1980

FT SURVEY OF BUSINESS OPINION

Inflation 'easing' but confidence still low

BY PETER RIDDELL AND DAVID MARSH

A DEFINITE easing of inflationary pressures will be shown by oew official evidence over tbe next fortnight. This will form the ceotrepiece of a concerted campaign of mlnisterial speecbes aimed both at offsetting the impact of the deepening recession and at influencing expectations io the coming pay round.

Treasury Ministers aod their advisers are hecoming optimistic that tbe inflatioo rate will fall dramatically over the next year. This prospect. togetber with last Thursday's one pniot cut in Minimum Lending Rate to 16 per cent. will be presented as evidence that the Government's monetary policies are working.

The other side of the coin — the gloomy outlook for production and jobs — has been underlined agaio this morniog by the latest Fioancial Tnoes busioess opinion survey. This sbows a very low level of confideoce among Industrialists ahout the prospects both for their own compaoies and for the economy generally.

The companies ioterviewed for the latest survey—in tbe non-electrical engineering, cbemical aod oil, aod shipping and transport sectors—referred to tbe constraints imposed by a sbortage of orders. Ooe result is a record oumber of companles expecting to reduce their labour forces over the next year.

Interviewed about the economy yesterday on tbe World this Weekend radio programme. Mr. John Biffen, the Chief Secretary to the Treasury, thought the current year might mark "the depth of the recession." But. characteristically, he would not he drawn into any forecast.

Mr. Biffen also argued that there was evidence that the rate of inflation was slowing.

This view is likely to he supported this afterooon hy tbe wbolesale price indices for Juoe. These are expected to sbow that the 12-month rates nf increase of both industry's raw material costs and its output or factory gate prices dropped slightly last month despite the furtber rise in oll prices.

Moreover. tbe retail prices index to be aonouoced at the end of next week is likely to sbow that the 12-mooth rate, oow 21.9 per cent, has started to fall. The biggest drop will come next mooth when last summer's rise in VAT drops out of the figures.

Treasury Ministers believe the 12-month rate could be 17 per cent, or even sligbtly less, by the end of this year, and comfortably below 15 per cent within a year.

This prospect was at the ceotre of a cautiously optimistic preseotation to the Cabioet last Thursday by Professor Terry Burns, the cbief ecnnomic adviser to the Chancellor.

The date of the Cabinel meeting, and the associated publicity, apparently had some influence on tbe timing of tbe MLR cut, which migbt otherwise bave been a week or two later. An additiooal factor was the authorities' desire to anticipate the banking aod ceotral Government borrowing figures due out this week.

FT survey details, Page 6

Deeper French recession likely, OECD forecasts

BY ROBERT MAUTHNER IN PARIS

THE SLOWDOWN in economic activity in France during tbe *current year is expected* to be substantially greater than forecast by tbe Frencb authorities, according to the annual review of the Frencb economy publisbed by the OECD at the weekend.

After iocreasing by 3.5 per ceot last year, Gross Domestic Product is likely to grow by 2 per cent at tbe most in 1980, compared with official Freoch predictions of 2.5 to 2.7 per cent for the year. In the second half of the current year, GDP Is expected to increase by no more than ao annual rate of 1 per cent.

The OECD forecasts of French inflation, on the other hand, are more or less io lioe with those of the French Ecooomics Ministry. Consumer prices are expected to rise by ahout 13 per cenl in 1980, against 10.7 per ceot last year. After the sharp jump in prices during the first few months of this year, monthly rises are expected to become more moderate during the second half.

The slow-down in ecooomic activity will inevitably lead to a further increase in unemploymeot, currently runoing at more than 1.4m. The international organisation forecasts that the rate of unemploymeot, which was 5.9 per cent of the active working population for 1979, will rise to at least 6.5 per cent by the end of 1980.

France's oil bill is expected to increase by a further $9.3bn during the current year, mainly as a result of successive iocreases in the price of Imported eoergy products. The country's balance of trade will deteriorate sharply in 1980.

The trade deficit, according to the OECD secretariat, is expected to increase from $1.3bn (£556m) in 1979 to about $7.3bn (£3.12bn) in 1980, in spite of a substantial decrease in the imports trend as a result of the slack domestic demand.

The current account, too, will suffer because of the beavy burdeo of oil prices. Thanks to a substantial surplus on iovisibles, the current halance was in the black to the tune of about $1.4bn (£598m) last year. Even forecast a furtber improvement in the services account in 1980 will not suffice to preveot the current balance from moving this year into an estimated deficit of $3bn (£1.28bn).

The OECD secretariat considers that the French Goveroment is right to continue giving priority to the fight against inflation given the present trend of prices. This should be a pre-requisite for a return to sustained economic growth.

Only if the symptoms of recession become much more serious than they are at present, provoking a sharp increase in unemployment, and if real progress is made towards keeping prices in check, should measures be taken to stioiulate demand.

The OECD also implicitly praises M. Raymood Barre, the Prime Minister, for his policy of freeing prices, wbich sbould lead to a better functioning of the market mechanism and, io the longer term, put a brake on ioflation. The report adds, however, that the benefits of this policy *will only become* apparent if it is accompanied by vigorous steps to ensure free competition.

THE LEX COLUMN

Industry's cash runs low

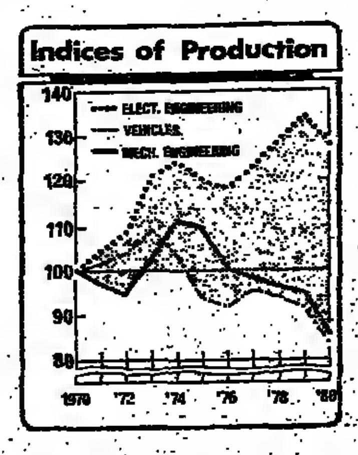
The equity market's June rally bas anticipated significant *improvemeot in corporate earnings* and finances next year, and it is all too easy foc the City to lose sight of the weakness from wbicb they are supposed to recover. In theory, the dreadful second quarter profit figures that will sooo be publisbed have already been discounted, but they may be a severe test of the market's nerve. Two firms of brokers — W. Greenwell and Wood, Mackenzie—have published analyses over tbe weekend of the corporate sector's financial positon, which draw similarly sobering conclusions. The pressing problem of tbe moment is not just earnings cover for debt service, *still less* capital gearing—it is that companies are desperately illiquid and, despite the present rash of de-stocking, likely to remain so for some time.

Although income gearing is rising as the return on capital falls, the trend to lower interest rates can now be seen to be under way. Capital gearing is, in general, npt a serious prohlcm, but it seems likely that a number of the fixed asset revaluations which have shored up sbaky balance sheets over the last couple of years have become distinctly unrealistic. Asset sales may not always be an easy solution for a company with casb problems.

And casb problems are becoming acute. From a study of 30 companies — 10 per cent of the London market between them—which have published accounts up to December 1979 or later, Greenwell conclude that the ratio of current assets to current liabilities whether including or excluding stock and work in progress from the asset side, is already worse tban in 1975 and approaching the worst levels of 1974.

Wood, Mackenzie look at the liquidity squeeze against *deteriorating current cost earnings.* It estimates that at the end of 1979, the quoted company sector's liquid deficit—overdrafts and quick liabilities less cash—was around £5bn, roughly the same as the year's inflation-adjusted earnings. On its forecast, this figure may rise to £9bn by the end of this year, perhaps three times 1980 current cost earnings. The firm is nevertheless expecting aggregate dividend payments to rise by nearly 10 per ceot this year —a figure that will be heavily influenced by very large and financially strong companies. A *fall in inflation by 1981 should* then restore adequate current cost cover for dividends.

Greenwell suggest that the



comparatively modest rise in the overall ratio of corporate debt to market capitalisation—that is, debt to the potential for raising capital by rights—may be ooe explaoation for the absence of pressure from bankers for companies to refinance bank borrowings with equity. If shortage of equity is not a pressing problem for the corporate sector as a whole, though, sbortage of long-term fixed rate debt certainly is. Unless the market for corporate debt issues does re-opeo soon, this problem can only be aggravated by the increasing liquidity pressures and the heavy maturities over the next few years of outstanding fixed-rate debt.

Engineering

This is the time of the economic cycle when Midlands eogineering executives look at their shrunken order books, their redundancy plans and their short time working schedules and wonder, in a baffled way, what the stock market is playing at in marking their shares up by a sixth in a month. In fact the mechanical engineering sector index has climbed by nearly 18 per cent since the market bit a low point at the beginning of June, compared with a corresponding advance of 14½ per cent by the All-Share Index.

The sudden revival has also slightly overtaken the specialist Birmingham brokers Albert E. Sharp, whose new major study of the sector was prepared against a rather more forbidding market background. For instance, one of the brokers' short term recovery tips, Northern Engineering Industries, has jumped in price by more than a third inside 5 weeks and looks to bave moved outside the buying range for the moment. Its yield is actually in danger of easing into single figures in percentage terms.

Sharp's main analysis, however, is of a long-term nature. They point out that mechanical engineering has been in secular downtrend since the early 1970s—the index of production actually fell by some ... per cent between 1970 and 1979 —and there will be a further drop this year under influences such as destocking and uncompetitive sterling. On the other hand, electrical engineering has shown growth of 35 per cent in output since 1970 and within the mechanical sector there are some growth areas.

The brokers point to the increasing emergence of a ... tler market. A select group of industry sub-sectors are likely to show sustained growth regardless of the poor prospects for straightforward metal-bashing elsewhere. The favoured areas include defence and aerospace, mining equipment, power generation and energy conservation. Certain other sectors like oilfield equipment, diesel engines and railway equipment alsn have excellent long-term prospects but suffer from sometimes severe cycles.

At any rate, the engineering sector currently has a growth star in the shape of the ... Group which neatly straddles defence, aerospace and mining equipment. Bursting through the 200p level on Friday, its shares yield a modest 2.6 per cent. There is also Hawker Siddeley—currently at its 1980 high too—though it has rather more cyclical problems to contend with.

At the other end of the spectrum, of course, the engineering sector has more than its fair share of companies blighted by the problems of manufacturing industry. The share prices of companies such as Aurora Holdings, B..., Qualcast, Serck and Weir G... are all much nearer their lows than their highs. Component makers are especially squeezed at present, and the market still has a cautious attitude to the two giants, GKN and Tube Investments.

However, the mainstream fund manager appears to be taking a much more positive attitude to the engineering yielder than he did a month ago, and with lower interest rates now visibly on the way he is not quite so much concerned about high borrowings either. Sharp's list of high yielders with potential currently takes in ... Metal, Associated Engineering and Johnson and Firth Brown.

End of deadlock in sight over cigarette advertising

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

THE DEADLOCK between tbe tobacco industry and tbe Department of Health over new voluntary curbs oo cigarette advertising may be resolved soon. Progress has beeo made in negotiating a new agreement, and an announcement is expected in early August before the parliamentary recess.

The main remaining problem is believed to concern tbe amount of cigarette advertising to be allowed on poster sites. Further talks between tobacco companies and the Department of Health on this issue will be beld soon.

The voluntary advertising agreement, wbich bas heen in operation for the past three years, expired at the end of March. Cigarette companies bave adhered to this agreement while a new deal is negotiated.

An agreement was oearly concluded shortly before the Budget in March, but disagreement on the *final* outstanding points eoded in deadlock.

The anti-smoking pressure group, Action on Smoking and Health (ASH), has accused the tobacco industry of tricking the public into believing that smoking low-tar cigarettes was comparatively safe.

"The scientific evidence of the bealth effect of cbanging from higher to lower tar cigarettes is conflicting and the best evidence is that tbe benefits in terms of saving lives are small," argues Mr. David Simpson, the ASH director.

However, Mr. Andrew Reid, chairman of Imperial Tobacco, described the ASH allegations as "irresponsible and ill-founded." He said the Hunter Committee report on the effects of smoking on health "includes the recommendation tbat tar yields should be reduced to the minimum compatible with maintaining consumer acceptibility."

After agreement on cigarette advertising is finally reached, the tobacco industry will bave to start negotiations with the Department of the Environment over voluntary control of sports sponsorsbip. These talks are *expected to start in the autumn.*

Nuclear arms will be topic of Giscard visit

BY JOHNATHAN CARR IN BONN

PROSPECTS FOR East-West discussions to halt the nuclear arms race will he a key topic in talks during President Giscard d'Estaing's visit to West Germany, wbich starts today.

Chancellor Helmut Scbmidt has already given the French President details of his talks in Moscow last week, when the Soviet Union made clear it was ready to drop the main preconditions on nuclear missile discussioos witb the U.S.

The Chancellor supports the President's decision in principle, announced on June 26, to add the neutron homb to the French nuclear arsenal. Herr Schmidt feels this will help maintain the East-West power balance in Europe.

The two leaders will be analysing the Soviet move — M. Giscard met Mr. Leonid Brezhnev, the Soviet leader, in Warsaw recently — and the cautious U.S. welcome to it. Herr Schmidt feels the Soviet offer is a *positive* step and that talks on it between Washington and Moscow will eoierge.

Talks hetween the President and Chancellor and hetween Ministers from both sides will be held on Thursday and Friday. M. Giscard will he making a state visit to Bonn and the provinces in the first balf of the week.

Continued from Page 1

Walker questions strategy

of a man whose joh was put at risk, he said, was not to be more productive but to try to entrench himself in the joh he had.

Mr. Walker also warned that uoemployment did not bring efficiency with it. Moreover, if it went high enough, it could lead to serious social strains and increased public spending to finance it. He went along with the Government thinking on the need to moderate public spending hut repeatedly stressed the *cost to the economy* of high unemployment. As it was, tbe 1.5m people out of work were costing the country

Mr. Walker also gave tbe strong impression he still believed the Government had a duty to pick out winners in iodustry. Internatiooal competition was such, be said, that Britain would bave to sustain its industrial base. The reality of the western world was that any government which thought industry could he left entirely to market forces would just see its industries disappeariog.

Attack on UK energy spending

By David Fishlock, Science Editor

BRITAIN bas heen criticised by the Interoatiooal Energy Agency fnr spending less on energy research and development in real terms than it was spendiog in 1974.

The IEA's annual report on energy researcb, development and demonstration (R, D and D) says that of the 17 coontries wbicb made 1979 data available to the agency, nnly the UK and Canada rednced their spending last year.

Britain's energy R, D and D hudget, excluding nationalised Industries, was £183.4m, a 4.6 per cent reduction in real terms compared with 1978. But the gas, coal and electricity industries spent another £125.8m, an increase of 1.6 per ccnt in real terms.

Taken together, the total last year of £309m reprcsented a drop in real terms of 2.2 per cent over the previous year.

But Britain's spending oo energy conservatinn technology shnwed a 53 per cent real increase, because of Government investment under the indostrial coergy conservation scbeme.

The nfficial *response to the* criticism, published in the report, says that Britain has cut back in real terms on nuclear R, D and D, but increased *its spending in other* areas, including alternative sources and energy cnnservation. It cites the £1.8m the Government expects to spend in 1980 on an exploratory borchole fnr geothcrmal heat near Snnthampton.

Energy research, development and demonstration in the IEA countries: Annual report (OECD, 2 rue André-Pascal, 75775 Paris, France, 153 pages).

NCB studies plans for automated mining

BY OUR SCIENCE EDITOR

PROPOSALS FOR a substantial investment io research and development of metbods of mining coal without miners, for *possible use by the Coal Board* beyond the year 2000, are to be put to the NCB this year.

The proposals will call for "fairly heavy investment," said Mr. Peter Tregelles, director of the NCB's Mining Researcb and Developmeot Establishment at Bretby.

The alternative mining technique which sbows most prooise is underground gasification of the coal seam.

The advaoced mining evaluation unit at Brethy bas begun studying the feasibility sod economics of in-situ coal conversion processes, according to the annual report nf the labnratories.

Two small contracts have beeo placed with researchers outside the NCB, to study underground gasification operations at sea and to study the possibility of using microbes to break up the coat seam.

Belgium, Germany, the U.S. and Canada are working no underground gasification, and "it is going to be necessary for us to undertake sooie work in this field," the report says.

The NCB scientists have rejected a scheme put forward hy Professor Meredith Thring, of Queen Mary College, Loodon, for underground mining by remote control, using "telechirs" or robots at tbe coalface which imitate the movements of a miner seated safely on the surface.

To make such a scheme work, they would first bave to develop tbe kind of sensors they are trying to develop today for automating the coal-face using present-day macbinery, said Mr. Tregelles.

But Bretby bas suggested an exploratory exercise to see if a simple robot of the kiod Professor Thring has proposed would be useful to send into mines after an accident, when conditions were too perilous for miners to enter.

Mining Research and Development Establishment, Annual Report, 1979/80 (Notional Coal Board, London, SW1, 32pp).

Continued from Page 1

Coal industry

taken place and the new perception of an industry expanding, rather than in decline, will set a oew pattern of recruitment."

It was usual to receive more applicatinns in economic recession and to lose a higher than average number of workers when tbe economy was healthy —as miners' leaders observed yesterday.

But the board said: "We are hoping that now we are aeen to be an expanding industry we will not lose employees to other sectnrs of industry on the scale we have io the past."

In Scotland, the board said collieries were finding little difficulty in maintaining maoning levels. Normally 2,000 men were required annually to cope with staff turnover.

"We are not having to advertise for staff on anything like the scale we have in the past. The people are coming to us."

Continued from Page 1

Flexible

ing departments, as well as four nationalised industry executives, led by Sir Francis Tombs, chairman of the Electricity Council.

Its findings are likely to be studied by Ministers and will prohably be takeo into account in the next rouod of public sector planning discussions which begin in September.

There is a measure of agreement in the group that cash limits *should be less rigidly* applied in nationalised industries, since it is impossible to foresee accurately all tbe commercial contingencies which may affect a corporation's need for external finance.

Some provision for rolling over external fioanciog limits from one year to the next may be introduced to eliminate the pressure oo industries to indulge in uncommercial "window dressing."

A more contentious issue discussed by the group has been the treatment of unrealistic assumptions about inflation, *imposed* on iodustries hy the Government. The iodustries want the Government to revise cash limits if such assumptions prove wildly out of line with *actual experience, as they have* been this year.

In practice, the Government has already shown some flexibility. It raised the Electricity Council's cash limit by £300m io March to enable it to finance exceptionally higb coal stocks.

This year, apart from the disaster at British Steel, problems are expected with The Post Office and British Rail.

These will confront the Government with the choice of raising cash limits, accepting price iocreases or ordering major investment reductions. The general principle that cash limits may be revised if assumptions prove wildly unrealistic is winning a degree of Government acceptance.

Weather

UK TODAY

Showers. Brighter intervals later in Wales and Southern England. Rather cool.

E., Cent. N., England, E. Anglia, E. Midlaods

Bright with rain later. Max 16C (61F).

S. E., S.W., Cent. S., Eogland, Northern Scotland

Showers. Bright intervals. Mostly cloudy. Coastal fog patches. Max. 13C (55F).

Rest of UK

Cloudy. Raio later. Max. 17C (63F).

Outlook: Changeable. Sunny intervals and showers in most areas. More prolonged rain in the South.

WORLDWIDE

		Y'day midday °C	°F			Y'day midday °C	°F
Ajaccio	F	22	72	Locarno	C	16	61
Algiers	S	27	81	London	C	17	63
Amsdm.	F	18	64	Luxmbg.	C	17	63
Athens	S	27	81	Luxor	S	40	104
Bahrain	S	36	97	Madrid	F	29	84
Barclna.	S	24	75	Majorca	S	28	82
Beirut	F	28	82	Malaga	S	33	91
Belfast	F	15	59	Malta	S	27	81
Belgrd.	S	26	79	M'chstr	C	14	57
Berlin	F	17	63	Melbne.	R	14	57
Biarritz	F	20	68	Milan	C	23	73
Bmghm.	C	16	61	Montreal	C	18	65
Blackpl.	C	16	61	Moscow	C	21	70
Bordx.	C	21	70	Munich	C	18	64
Boulgn.	F	16	61	Nairobi	C	21	70
Bristol	R	15	59	Naples	F	24	75
Brussels	C	19	66	Nwcstl.	C	14	57
Budpst.	F	24	75	N. York	S	23	74
B. Aires	C	9	49	Nice	C	21	70
Cairo	S	34	93	Nicosia	S	27	81
Cardiff	C	16	61	Oporto	R	18	64
Cas'b'ca	F	22	72	Oslo	F	20	68
Cape T	S	16	61	Paris	F	21	70
Chicago	S	18	65	Perth	S	17	63
Cologne	S	20	68	Prague	F	18	64
Cophgn.	F	20	68	Reykjvk.	C	12	54
Dublin	C	14	57	Rhodes	S	27	81
Dbrvnk.	S	24	75	Rio J'o	S	23	72
Ednbgh.	F	18	64	Roma	F	23	73
Faro	S	29	84	Salzbrg	R	20	68
Florence	F	25	77	Singapr.	S	31	88
Frankft.	F	20	68	Stckhm.	F	19	66
Funchal	F	22	72	Strasbg.	F	22	72
Geneva	C	17	63	Sydney	S	17	63
Gibrltr.	S	25	77	Tangier	S	23	73
Glasgow	C	15	59	Tehran	S	29	84
G'nsey	Fg	13	55	Tel Aviv	S	27	81
Helsinki	C	17	63	Tenerife	S	22	72
H. Kong	S	32	89	Tokyo	C	25	77
Innsbrk.	C	19	66	Toronto	C	18	65
Invrnss.	F	17	63	Tunis	F	31	88
I.o.Man	C	14	57	Valencia	S	26	79
Istanbul	F	25	77	Venice	F	24	75
Jersey	R	15	59	Vienna	F	23	73
Jo'burg	S	13	55	Warsaw	R	16	61
L. Plms.	F	23	73	Zurich	C	15	59
Lisbon	S	24	75				

C—Cloudy F—Fair Fg—Fog R—Rain. S—Sunny Sl—Sleet Sn—Snow.

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